



Joint Annual Audit Letter

Year ending 31 March 2018

Police and Crime Commissioner for Wiltshire and Chief Constable for Wiltshire

29 August 2018



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Executive Summary

Purpose

Our Joint Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out for the Police and Crime Commissioner for Wiltshire (the PCC) and the Chief Constable for Wiltshire (the Chief Constable) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the PCC, the Chief Constable, and their external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Joint Independent Audit Committee in our Joint Audit Findings Report on 19 July 2018.

Our work

Materiality	We determined materiality for the audit of the group and PCC and Chief Constable's financial statements to be £2,590,000, which is 2% of the Chief Constable's gross revenue expenditure.
Financial Statements opinion	We gave unqualified opinions on the group and PCC and Chief Constable financial statements on 19 July 2018.
Whole of Government Accounts (WGA)	We completed work on the PCC and Chief Constable's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the PCC and Chief Constable each put in place proper arrangements to ensure economy, efficiency and effectiveness in the use of resources. We reflected this in our audit reports to the PCC and Chief Constable on 19 July 2018.
Certificate	We certify that we have completed the audit of the accounts of the group and PCC and the Chief Constable in accordance with the requirements of the Code of Audit Practice.

Working with the PCC and Chief Constable

During the year we have delivered a number of successful outcomes with you including:

- An efficient audit – we delivered an efficient audit with you in June, reporting to the Joint Audit Committee on 19 July 2018 and signing the audit opinions on the same day.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports.
- Providing training – we provided your finance team with free training on financial accounts and annual reporting issues in advance of the year end to ensure that they were aware of latest accounting developments.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the PCC and Chief Constable's staff.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give opinions on the group and PCC and the Chief Constable financial statements (section two)
- assess the PCC's and Chief Constable's arrangements for securing economy, efficiency and effectiveness in their use of resources (the value for money conclusion) (section three).

In our audit of the group and PCC and Chief Constable financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Audit of the Accounts

Our audit approach

Materiality

In our audit of the group and PCC and Chief Constable financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group accounts to be £2,590,000, which is 2% of the Chief Constable's gross revenue expenditure.

We set a lower threshold of £129,000, above which we reported errors to Those Charged With Governance (the PCC and Chief Constable as Corporations Sole) in our Joint Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts and the narrative report and annual governance statement published alongside the Statement of Accounts to check they are consistent with our understanding of the group and PCC and Chief Constable, and with the financial statements included in the Statement of Accounts on which we gave our opinions.

We carry out our audits in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Our audit approach is based on a thorough understanding of the PCC and Chief Constable's businesses and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	Relevant to PCC or Chief Constable?	Findings
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The PCC and Chief Constable face external scrutiny of their spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>Management override of controls is a risk requiring special audit consideration.</p>	Both	<p>We:</p> <ul style="list-style-type: none"> gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness; obtained a full listing of journal entries and identified and subsequently tested any unusual journal entries for appropriateness; and evaluated the rationale for any changes in accounting policies and any significant unusual transactions or estimates. <p>Our audit work did not identify any issues in respect of management override of controls.</p>
<p>Valuation of property, plant and equipment</p> <p>A full valuation of the PCC's land and buildings was performed as at 31 March 2018. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	PCC	<p>We:</p> <ul style="list-style-type: none"> reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; considered the competence, expertise and objectivity of any management experts used; challenged the key assumptions where appropriate; reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding; tested revaluations made during the year to ensure they are input correctly into the Trust's asset register; and evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. <p>Our audit work did not identify any issues in respect of property, plant and equipment valuations.</p>

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	Relevant to PCC or Chief Constable?	Findings
<p>Valuation of pension fund net liability</p> <p>The Local Government Pension Scheme (LGPS) pension net liability as reflected in the balance sheet, and asset and liability information disclosed in the notes to the accounts, represent significant estimates in the financial statements.</p> <p>The Police Officer pension fund liability as reflected in the balance sheet and notes to the accounts also represent significant estimates in the financial statements.</p> <p>These estimates by their nature are subject to significant estimation uncertainty, being very sensitive to small adjustments in the assumptions used.</p> <p>We identified the valuation of the pension net liability as a risk requiring special audit consideration.</p>	<p>Chief Constable (and group)</p>	<p>We:</p> <ul style="list-style-type: none"> identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement; evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuations and gained an understanding of the basis on which the valuations were carried out; undertook procedures to confirm the reasonableness of the actuarial assumptions made; checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial reports; and gained assurances over the data provided to the actuary to ensure it was robust and consistent with our understanding. <p>Our audit work did not identify any issues in respect of the valuation of the pension fund net liability.</p>
<p>Transfer of Pension Service Provider</p> <p>The Police Pension Service provider transferred from Capita Pensions to Kier Pensions in the financial year.</p> <p>There is a risk that the pension data transferred between providers is not complete.</p>	<p>Chief Constable (and group)</p>	<p>We:</p> <ul style="list-style-type: none"> documented our understanding of management's processes and controls relating to the transfer of data from Capita to Kier in year; reviewed the parallel runs undertaken by Kier and Capita to ensure that both service organisations are processing the same transactions and data; reviewed the closing membership numbers per Capita to the opening membership numbers per Kier with follow up of any significant differences; and reviewed the closing and opening of bank accounts in relation to the pension payments and follow up on any reconciliations performed. <p>Our audit work did not identify any issues in respect of the transfer of the police pension service provider.</p>

Audit of the Accounts

Audit opinion

We gave unqualified opinions on both the group and PCC and Chief Constable's financial statements on 19 July 2018, in advance of the national deadline.

Preparation of the accounts

The PCC and Chief Constable presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Joint Independent Audit Committee on 19 July 2018.

We did not report any adjusted errors and only reported a small number of disclosure and misclassification issues. We reported one unadjusted error in relation to the treatment of de-minimis capital expenditure.

Annual Governance Statement and Narrative Report

We are required to review the PCC's and Chief Constable's Annual Governance Statements and Narrative Reports. These are published on the websites in the Statement of Accounts in line with the national deadlines.

The documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the PCC and Chief Constable and with our knowledge.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of the group and PCC and the Chief Constable in accordance with the requirements of the Code of Audit Practice. We issued these certificates with our audit opinions on 19 July 2018.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that in all significant respects the PCC and Chief Constable each put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources for the year ending 31 March 2018.

Value for Money conclusion

Risks identified in our audit plan	Findings and conclusions
<p>Medium Term Financial Position Wiltshire Police have been required to deliver substantial savings since 2010/11, and forecast significant savings requirements going forward. The latest funding settlement announcement in December 2017 provides a better than anticipated financial outlook, however significant savings and strong financial management will still be required and the medium term revenue financial strategy (MTFS) remains unbalanced to 2021/22.</p>	<p>The 2017/18 revenue outturn was an underspend of £1.391m (1.3%). The majority of this underspend was transferred to earmarked reserves, to fund known commitments, and a small transfer of £0.108m was made to the General Fund. The capital outturn was £2.876m, representing 64.1% of the total revised plan. Of the £1.608m underspend, £1.599m represents projects that have slipped into the 2018/19 budget.</p> <p>The MTFS covers the period from 2018/19 to 2021/22 and was updated following the December 2017 funding settlement with the assumption that precepts will be will increased by £1 per month again in 2019/20, with 1.99% annual increases from 2020/21. We consider that this is a reasonable working assumption, and it is consistent with what we have seen elsewhere in the police sector. This level of precept results in an estimated savings requirement of £5.302m by 2021/22. The key expenditure assumptions and cost base changes included are in line with our understanding and the wider police sector. A review of the high level assumptions used by other local police bodies suggests that Wiltshire are budgeting for the medium term in line with their geographical neighbours.</p> <p>The planned use of reserves in 2018/19 has reduced to £0.25m from the £1.393m included in the previous MTFS. It is acknowledged that using reserves is not a viable recurrent option; whilst they smooth the saving requirement for 2018/19, the savings will need to be delivered in future years to meet the underlying recurrent shortfall. Savings required in 2018/19, after the use of reserves, are £1.34m, and similar levels of annual savings are required in each year of the MTFS. Prior to the funding settlement, consideration was given to some difficult options to balance revenue budgets, such as removing revenue funding of capital. The funding settlement and updated MTFS mean that this option is no longer required at this time.</p> <p>The latest approved capital plan from October 2017 shows a cumulative funding shortfall of £11.298m by the end of 2021/22. However, this reflects a point in time and does not reflect interdependencies between schemes or potential future financing options that may become available. This is intentional and work is underway to refine the scope of the capital plans, and it is expected that this shortfall will reduce. It is acknowledged that borrowing may be considered as an option to finance part of the capital plan in the medium term.</p> <p>A national comparison undertaken by the Home Office shows that, as a percentage of funding, Wiltshire held more reserves than the national average at 31 March 2017. However, the majority of these reserves are earmarked for specific projects, and are forecast to be utilised over the life of the current MTFS. Between 31 March 2017 and 31 March 2020, reserves are forecast to fall from £20.194m to £4.379m. £3.849m (88%) of the forecast balance at 31 March 2020 relate to the General Reserve and Chief Constable’s Operational Reserve which are held for one-off unexpected costs.</p> <p>The summary HMIC VfM profile shows that Wiltshire’s revenue expenditure is lower in all aspects than its most similar group. This makes savings identification and delivery more difficult. A number of savings programmes have been identified, many of which relate to workforce expenditure, which is unsurprising given 85% of the Force’s expenditure relates to staff costs. The savings targets include some workforce modernisations which move roles from warranted officers to staff roles, and this approach has been successfully used to deliver financial benefits in previous years. The Force is planning for a number of recruits in future years, with officers recruited in advance of need to ensure that they are fully trained and able to be deployed from the first day they are required. Any revenue budget pressures caused by this profiling are planned to be met through use of the Officer Intake Strategy Reserve.</p> <p>Taking the above information into account, we concluded that the risk was sufficiently mitigated and the PCC and Chief Constable each has proper arrangements for informed decision making and sustainable resource deployment.</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and confirm there were no fees for the provision of non audit services.

Reports issued

Report	Date issued
Joint Audit Plan	8 March 2018
Joint Audit Findings Report	9 July 2018
Joint Annual Audit Letter	29 August 2018

Audit fees

	Proposed fee	Final fee
Police and Crime Commissioner audit	£31,733	£31,733
Chief Constable audit	£15,000	£15,000
Total	£46,733	£46,733

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)



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