



cutting through complexity

Annual Audit Letter 2014/15

Police & Crime Commissioner for South Yorkshire and
Chief Constable of South Yorkshire

October 2015

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Report sections

- Headlines

Page

2

Appendices

1. Key issues and recommendations
2. Summary of reports issued
3. Audit fees

4

6

7

This report is addressed to the Police & Crime Commissioner for South Yorkshire and the Chief Constable of South Yorkshire (the PCC and the CC) and has been prepared for the sole use of the PCC and the CC. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.audit-commission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Rashpal Khangura, the appointed engagement lead to the PCC and CC audits, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the PSAA. Audit Commission. If you are dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

This report summarises the key findings from our 2014/15 audits of the Police and Crime Commissioner for South Yorkshire (the PCC) and the Chief Constable of South Yorkshire (the Chief Constable).

Although this letter is addressed to the PCC and Chief Constable as the corporation sole, it is also intended to communicate these issues to key external stakeholders, including members of the public.

Our audits cover the audit of the PCC's and the Chief Constable's 2014/15 financial statements and the 2014/15 VFM conclusions.

<p>VFM conclusions</p>	<p>We issued an unqualified conclusion on the PCC's arrangements to secure value for money (VFM conclusion) for 2014/15 on 30 September 2015. This means we are satisfied that that PCC had proper arrangements for securing financial resilience and challenging how he secures economy, efficiency and effectiveness.</p> <p>We issued a non-standard 'except for' conclusion in respect of the arrangements the Chief Constable had in place for delivering efficiency, effectiveness and economy in respect of child sexual exploitation (CSE) during 2014/15.</p> <p>To arrive at our conclusions we looked at the PCC's and the Chief Constable's financial governance, financial planning and financial control processes, as well as the arrangements for prioritising resources and improving efficiency and productivity. We also reviewed reports issued by external review agencies that were relevant to the force.</p>
<p>VFM risk areas</p>	<p>We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusions and considered the arrangements that were put in place to mitigate these risks.</p> <p>Our work identified the following significant matters:</p> <ul style="list-style-type: none"> ■ Governance arrangements: we examined the range of independent reviews commissioned by the PCC into CSE. The work on these reviews is at an early stage, where they have begun, and should provide strong evidence to support our work in 2015/16; ■ Medium term financial forecast: the force faces significant financial pressures in the next few years, as do every other police force in the country. South Yorkshire Police are facing additional financial pressures as a result of legacy issues, including Hillsborough and CSE. The PCC and the Chief Constable recognise the scale of these issues and have a range of options to manage these but recognise, like Her Majesty's Inspectorate of constabulary (HMIC) that the force will not be able to deal with these without outside support. ■ Child sexual exploitation: we have held discussions with members of the Command Team to identify the actions being undertaken by the force to identify and address the actions required to tackle historic and current cases of CSE. We noted the improvements being made by the force, we also recognised that many of these were a work in progress at the 31 March 2015 year-end, and did not indicate that proper arrangements had been in place for the full 12 months of our reporting period. This was confirmed in a HMIC report issued in July 2015 which noted significant progress had been made, but that there was still significant progress still to make. It was for these reasons that the 'except for' conclusion was issued to the Chief Constable.

We provide a summary of our key recommendations in Appendix 1.

All the issues in this Annual Audit Letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 2.

Audit opinions	We issued unqualified opinions on the PCC's and the Chief Constable's financial statements on 30 September 2015. This means that we believe the financial statements give a true and fair view of the financial position of both the PCC and the Chief Constable and of their expenditure and income for the year.
Financial statements audits	<p>Our audits of the PCC and the Chief Constable identified one significant risk as required by auditing standards, the risk of management override of control. Our audit methodology addresses this risk through the testing of controls and substantive procedures over journals, accounting estimates and significant unusual transactions. The other standard risk identified by professional standards, the fraud risk of revenue recognition, was rebutted as we did not identify an incentive to fraudulently recognise revenue.</p> <p>We also identified two areas of other audit focus, these being payroll and the legal costs associated with the Hillsborough Inquests. Significant additional work was undertaken to understand the nature of both the income and expenditure associated with the Hillsborough Inquests, and this was required to satisfy ourselves that the income reported in the financial statements and that expenditure incurred were appropriate.</p>
Annual Governance Statements	We reviewed your <i>Annual Governance Statements</i> and concluded that they were consistent with our understanding.
Whole of Government Accounts	<p>The PCC produces a Whole of Government Accounts return for the consolidated financial statements, comprising the activity of the PCC and the Chief Constable combined.</p> <p>We reviewed the consolidation pack prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the PCC's pack was consistent with the audited financial statements.</p>
Audit recommendations	Our audit identified two medium priority recommendations which have been detailed in Appendix 1.
Certificates	We issued our certificates on 30 September 2015. The certificates confirm that we have concluded the audits for 2014/15 in accordance with the requirements of the <i>Audit Commission Act 1998</i> and the Audit Commission's <i>Code of Audit Practice</i> .
Audit fee	Our fee as set by the Audit Commission for 2014/15 was £77,190, excluding VAT (£52,190 for the PCC, £25,000 for the Chief Constable). As a result of the additional work required on the Hillsborough Inquests legal costs and the non-standard VFM conclusion, we have proposed additional fees of £1,638 for the PCC and £1,038 for the chief Constable. Both sums need to be approved by the PSAA and this approval is currently awaited.

Appendix 1: Key issues and recommendations

This appendix summarises the medium priority recommendations that we identified during our 2014/15 audit, along with your responses to them.

Low priority recommendations are contained, as appropriate, in our other reports, which are listed in Appendix 2.

No.	Issue and recommendation	Management response / responsible officer / due date
1	<p>Purchase System</p> <p>Our year end testing reviewed the Goods Received Not Yet Invoiced listing. Within our sample was one item that was still listed but had actually been paid. As such the expenditure was accounted for twice in the financial statements. The amount was £88,000, but we were satisfied that this was an isolated error and that no other items were affected.</p> <p>Recommendation</p> <p>Management should investigate the reasons for this item being duplicated to understand how the error occurred. Once understood, controls should be reviewed to ensure that the error does not recur in future years.</p>	<p>Management response</p> <p>The above mentioned invoice appears to be an isolated incident, further investigation will be carried out to further ascertain the reasons for the double counting. Systems are already built in to the processes within Management Accounts to review the Goods Received Not Yet Invoiced report on a monthly basis to identify that outstanding orders are correct and cancel orders which may be accruing in error. This is done by the Finance Officers (central team) in conjunction with the Business Support Unit Clerks (local Districts and Departments). A full review of this process will take place to ensure it is still working robustly.</p> <p>Responsible officer</p> <p>Management Accountant</p> <p>Due date</p> <p>March 2016</p>

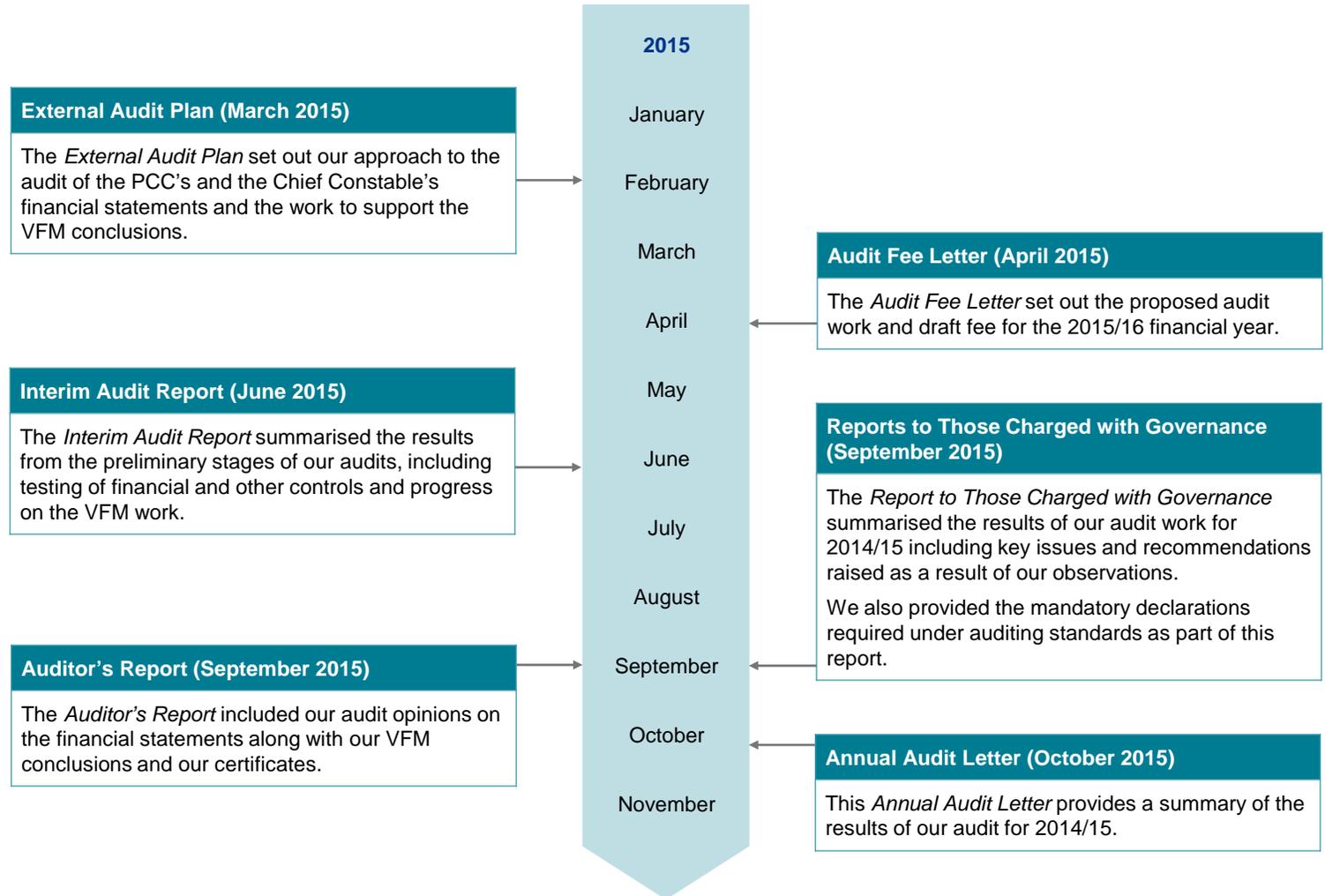
No.	Issue and recommendation	Management response / responsible officer / due date
<p>2</p>	<p>Termination Benefits</p> <p>Discrepancies were found where exit packages had been accounted for in 2014/15; while they had been paid in the year, they had actually been agreed and signed before 31 March 2014, and as such should have been provided for in the 2013/14 financial statements. In aggregate the amounts were not material by value, and fall below our reporting threshold.</p> <p>However, with a significant restructuring programme to be undertaken in 2015/16, a similar failure to identify such payments could be material in future years.</p> <p>Recommendation</p> <p>At the end of every financial year, the Finance and HR teams should liaise to identify all officers and members of staff who are in the process of leaving the employment of the PCC or CC, and Finance should use this information to determine whether a severance payment should be provided for.</p>	<p>Management response</p> <p>There is already a joined up process in place between Finance and HR which was set up during 2014/15. There is shared access to a spreadsheet which contains the details of all VER and other agreed packages which is accessed by both Finance and HR colleagues. Regular review of this takes place during the year and checks are carried out at year end to ensure that it is fully up to date with all packages agreed prior to 31st March to ensure these are correctly accounted for in the correct financial period. The ones identified in this recommendation related to 2013/14 year end which occurred prior to the revised process being put into place.</p> <p>Responsible officer</p> <p>Financial Accountant</p> <p>Due date</p> <p>Already implemented</p>

Follow up of previous recommendations

As part of our audit work we followed up on the PCC's and the Chief Constable's progress against previous audit recommendations. We raised one low priority recommendation in 2013/14 which has been subsequently superseded. Further details are provided in our *Report to those charged with governance (ISA 260) 2014/15*.

Appendix 2: Summary of reports issued

This appendix summarises the reports we issued since our last *Annual Audit Letter*.



This appendix provides information on our final fees for the 2014/15 audit.

To ensure transparency about the extent of our fee relationship with the PCC and the Chief Constable we have summarised below the outturn against the 2014/15 planned audit fee.

External audit

Our final proposed fee for the 2014/15 audit of the PCC and the Chief Constable is broken down as below:

	PCC	Chief Constable
Planned fee	£52,190	£25,000
Additional fee	£1,638	£1,038
Total fee	£53,828	£26,038

The additional fee is proposed on the grounds that additional work was required on the legal costs of the Hillsborough Inquests in the PCC's financial statements, and the additional work required on the 'except for' VFM conclusion issued to the Chief Constable on CSE. The additional fees still require final determination from the PSAA.

Other services

We did not charge any additional fees for other services.



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