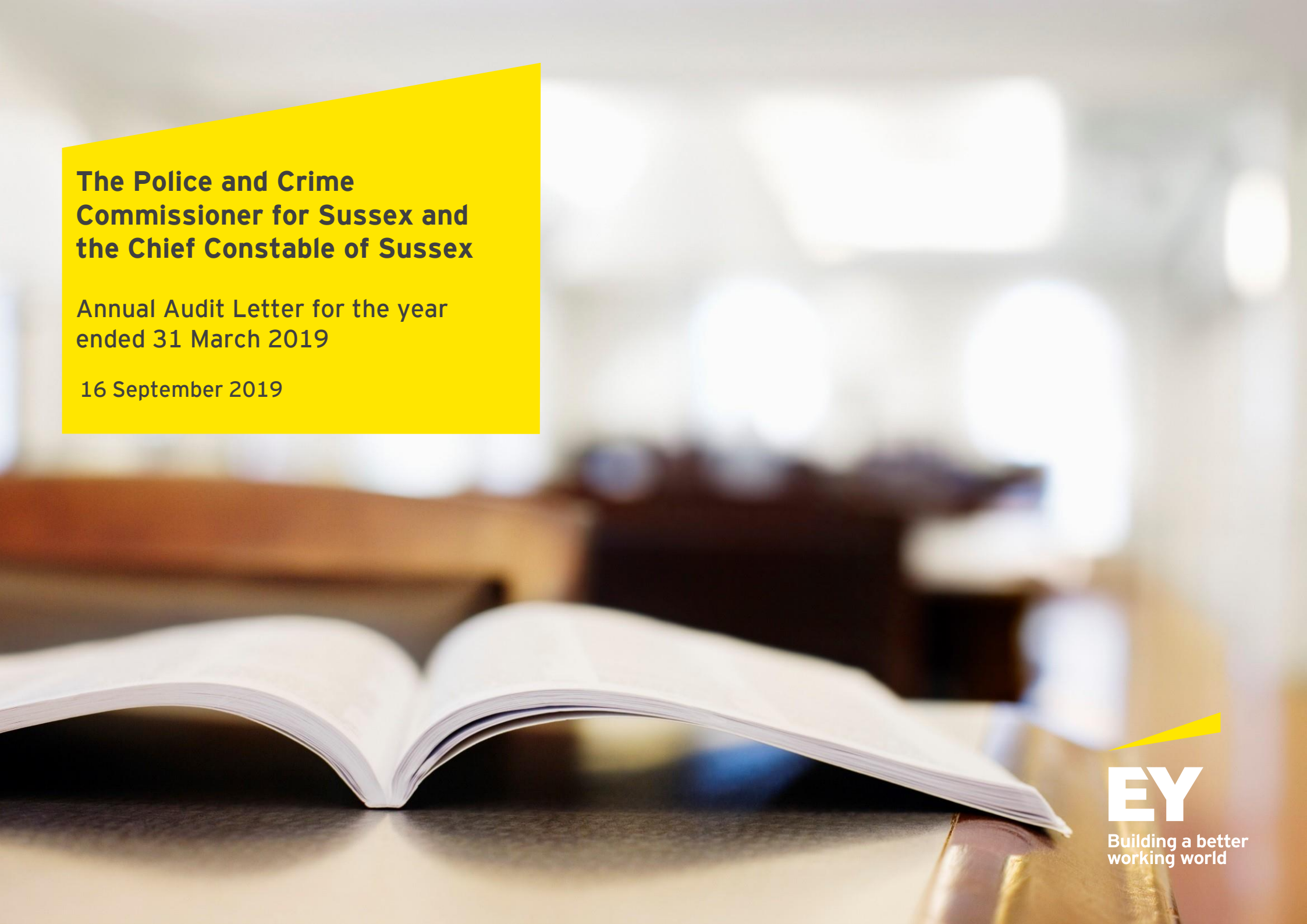
The Police and Crime Commissioner for Sussex and the Chief Constable of Sussex

Annual Audit Letter for the year ended 31 March 2019

16 September 2019



Building a better working world

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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

01 Executive Summary

Executive Summary

We are required to issue an annual audit letter to the Police and Crime Commissioner for Sussex (PCC) and the Chief Constable of Sussex (CC) following completion of our audit procedures for the year ended 31 March 2019. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Group's: ► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Group, PCC and CC respectively as at 31 March 2019 and of its expenditure and income for the year then ended.
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Group's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception:	
► Consistency of Annual Governance Statements	The Annual Governance Statements for both the PCC and the CC were consistent with our understanding of the Group.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the Group, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Group's Whole of Government Accounts return (WGA).	We had no matters to report.

Executive Summary (cont'd)

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Group communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 26 July 2019 for the Police and Crime Commissioner for Sussex and the Chief Constable of Sussex.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 12 September 2019, following completion of the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack.

We would like to take this opportunity to thank the staff at Sussex Police for their assistance during the course of our work.

Mark Hodgson

Associate Partner

For and on behalf of Ernst & Young LLP

02 Purpose and Responsibilities

Purpose and Responsibilities

The Purpose of this Letter

The purpose of this Annual Audit Letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Group.

We have already reported the detailed findings from our audit work in our 2018/19 Audit Results Report to the 29 July 2019 meeting of the Joint Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Group.

Responsibilities of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the Audit Plan that we issued on 30 January 2019 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2018/19 financial statements; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Group has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statements are misleading or not consistent with our understanding of the Group;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Group, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by thy Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the NAO.

Responsibilities of the Police

The Group are responsible for preparing and publishing their statements of accounts accompanied by an Annual Governance Statement for each set of accounts for the PCC and the CC. In the Annual Governance Statements, the PCC and the CC Group reports publicly each year on how far they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in year, and any changes planned in the coming period.

The Group is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

03 Financial Statement Audit

Financial Statement Audit

Key Issues

The Group's Statements of Accounts is an important tool for the Group to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Group's Statements of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report for the Group, PCC and the CC on 26 July 2019.

Our detailed findings were reported to the 26 July 2019 Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risks	Conclusion
Misstatements due to fraud or error The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK and Ireland) 230, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement. PCC's and CC's have a statutory duty to balance their annual budget and are operating in a financially challenged environment with reducing levels of government funding and increasing demand for services. Achievement of budget is critical to minimizing the impact and usage of the usable reserves and provides a basis for the following year's budget. Taking these pressures into account we have concluded that there is a risk of management manipulation of revenue expenditure to re-classify it as capital to improve the financial position over the medium term.	Our audit work found no evidence of any inappropriate capitalisation of revenue expenditure.

Other Risks	Conclusion
Valuation of Land and Buildings We initially identified the valuation of land and buildings as an area of audit focus in our Audit Plan. The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Group accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.	We concluded that the Property, Plant and Equipment valuations are materially correct.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Risks	Conclusion
Pension asset valuation The Group is required to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Sussex County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. We are required to undertake procedures on the assumptions of the actuary.	We are satisfied that the required IAS 19 disclosures have been reflected in the financial statements and are based on accurate supporting information. <u>McCloud Ruling</u> A national issue resulted in a relatively late change to the pension fund accounts and IAS 19 fund liability disclosure. This related to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. Revised actuarial reports provided by the actuaries show an increase in the liability of £137.65 million to the Group Pension Liabilities as a result of the adjustments, with further associated disclosure added to recognise this as a source of estimation uncertainty and an adjusted Post Balance sheet event. The impact of the Guaranteed Minimum Pension ruling was also taken into account in these adjustments.
<u>IFRS 9 financial instruments</u> This new accounting standard changes: • How financial assets are classified and measured; • How the impairment of financial assets are calculated; and • The disclosure requirements for financial assets. There are transitional arrangements within the standard; and the 2018/19 CIPFA Code of Practice on local authority accounting provides guidance on the application of IFRS 9.	We concluded that IFRS 9 financial instruments had been applied correctly, although there was an amendment required to the disclosure note.
<u>IFRS 15 Revenue from contracts with customers</u> This new accounting standard covers the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.	We agree with the PCC and CC's conclusion that IFRS 15 has not had a material impact on the financial statements. This reflects the nature of revenue in effect and the fact that the majority of the revenue does not meet the specific criteria to satisfy applicability under IFRS 15. This is consistent with our findings elsewhere within the sector.

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Materiality	Planning materiality	Operating expenditure or Assets	Audit differences
Group	£9.748 million	£630.508 million (expenditure)	£487,409
Chief Constable	£9.586 million	£331.557 million (Assets)	£479,336
Office of the Police and Crime Commissioner	£6.198 million	£309.929 million (expenditure)	£271,368
Police Pension statement	£1.657 million	£82.955 million (expenditure)	£82,893

Item	Thresholds applied
Reporting threshold	We agreed with the Joint Audit Committee that we would report to the Committee all audit differences in excess of £487,409.

04 Value for Money

Value for Money

We are required to consider whether the Group has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In our Audit Plan we reported that we had identified one significant risk in respect of:

- implementation of the Tri-Force Enterprise Resource Planning (ERP) system.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Groups arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 31 July 2019.

Value for Money

Value for Money Risk – Tri-Force ERP system

What are our findings?

As part of our planning the PCC and CC updated us on progress with the implementation of the new Enterprise Resource Planning (ERP) system.

This is a significant joint project with Surrey Police and Thames Valley Police which will modernise the key financial systems in effect at Sussex Police. The project is a multi-pound IT restructure and so is subject to a significant number of inputs and assumptions regarding delivery.

As part of our review for the value for money conclusion we have obtained a detailed understanding of the current status of the project. This has included:

- Current estimated delivery and 'Go-live' dates versus original project dates;
- Current estimated cost of the project to Sussex Police versus original budgeted and forecast costs; and
- Governance arrangements in place at Sussex Police supporting delivery and review of the project.

Our work has involved reviewing a raft of key documentation supporting the project delivery, consideration of the independent reviews which have been commissioned into the project and discussions with officers playing a significant role in project implementation.

The ERP implementation programme has experienced significant slippage on the original timetable. Based on the assumption that current plans are met, the project will be completed with an overall delay of around two years. The delays incurred so far have resulted in additional costs of £8.8 million between the three forces, which represent approximately 40% of the original contract cost (as per May 2018 re-plan). Costs to complete the work are estimated at an additional £4.8 million (KPMG element only).

Review of minutes of meetings of the committees charged with governance over the EQIP programme (EQIP Project Board) shows evidence of shared decision making between the Forces. There is also evidence that those present in the meetings have engaged in serious discussions and debates about the programme, showing the expected level of governance is in place. The Joint Audit Committee have also been kept appraised of the project on a timely basis.

Attendance at both the Board meetings and the Joint Audit Committee meetings have been good with multiple attendees from each Force. Meetings have been held on a regular basis – quarterly for the Joint Audit Committee and monthly for the EQIP Project Board.

The process of renegotiation appears to be sound. The Joint Authority is meeting weekly with the contractor and is keeping detailed records of the actions coming out of these meetings, including the person responsible for each actions, helping them to stay on top of the outstanding tasks. There is evidence the Joint Authority has sought legal advice throughout the renegotiation period in respect of both the licensing issue and the settlement agreement.

Grant Thornton (GT) were engaged to provide further programme assurance by carrying out three reviews; May 2018, December 2018 and June 2019. The recommendations made in the latest GT report have been taken on board by the Joint Authority, with all recommendations noted as being completed (52 recommendations) or in progress (14 recommendations). Discussions with the EQIP Project Manager indicate they are feeling confident about the progress that has been made to date against those recommendations.

Value for Money

Value for Money Risks – Tri-Force ERP system

What are our findings?

We have seen evidence that the Force's approach to risk management is pre-emptive, which helps to ensure that procedures are implemented and helps to mitigate risks as much as possible when compared with a reactive approach. This will help the Force to be suitably prepared to respond to risks in an appropriate and timely manner when they do occur. Without this preparation, a risk could have a significantly more detrimental effect on the Force's functionality and finances.

Most recently the Chief Constables', following feedback and recommendations from the JAC Chairs have engaged The Berkeley Partnership to carry out an external review of the governance of the programme focusing on the current contractual position with the contractor and a review of the current commercial/technical state of the programme. The Forces expect that The Berkeley Partnership will conclude the review by mid August.

Whilst the ERP project has seen significant slippage in the 'go live' date, coupled with overspending as a result – we are satisfied that the arrangements in place during 2018/19 to manage the ERP project were appropriate.

05 Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We have completed this work ahead of the 13 September 2019 deadline and have no matters to report.

Annual Governance Statement

We are required to consider the completeness of disclosures in the PCC's and the CC's Annual Governance Statements, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Group or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Group to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2018/19 financial statements from members of the public.

Other Reporting Issues (cont'd)

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Joint Audit Committee on the 23 July 2019. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

Under ISA (UK&I) 265 it is mandatory to communicate significant deficiencies in internal control in writing to any audit client. Unless the audit team has used the 'Management Letter template' to communicate significant deficiencies, it is mandatory to use this section if there are any.

It is the responsibility of the Group to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Group has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

07 Focused on your future

Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the PCC and the CC is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2020/21 financial year. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet. There are transitional arrangements within the standard and although the 2020/21 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.	Until the 2020/21 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area. However, what is clear is that the PCC and the CC will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The PCC and the CC must therefore ensure that all lease arrangements are fully documented.
IASB Conceptual Framework	The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local authority accounts from the 2019/20 financial year. This introduces; – new definitions of assets, liabilities, income and expenses – updates for the inclusion of the recognition process and criteria and new provisions on derecognition – enhanced guidance on accounting measurement bases - enhanced objectives for financial reporting and the qualitative aspects of financial information. The conceptual frameworks is not in itself an accounting standard and as such it cannot be used to override or disapply the requirements of any applicable accounting standards. However, an understanding of concepts and principles can be helpful to preparers of local authority financial statements when considering the treatment of transactions or events where standards do not provide specific guidance, or where a choice of accounting policies is available.	It is not anticipated that this change to the Code will have a material impact on Local Authority financial statements. However, the PCC and the CC will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions.

07 Audit Fees

Audit Fees

Our final fee for 2018/19 is to be confirmed following discussions with officers.

	Final Fee 2018/19	Scale Fee 2018/19
	£'s	£'s
Total Audit Fee – PCC Code work	*Note 1*	28,529
Total Audit Fee – CC Code work	*Note 1*	14,438
Additional fees for VFMC – Medium Term Financial Planning	*Note 2*	0
Additional fees for VFMC – ERP system	*Note 2*	0
Total	**TBC**	**42,967**

Note 1: As a result of the additional time spent on the audit of the PCC and the CC financial statements in relation to the audit adjustments and McCloud issue, we will need to charge an additional audit fee and so cannot confirm our final fee for 2018/19 at this stage.

Note 2: As a result of the VFM conclusion significant risks we will be discussing with the Chief Financial Officers, for the PCC and the CC, an additional audit fee and so cannot confirm our final fee for 2018/19 at this stage.

We will discuss and agree our proposed additional fee with the Chief Finance Officers before gaining formal approval from Public Sector Audit Appointments Ltd (PSAA) for the scale fee variation. We will report our final fee to you in a separate fee letter.

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EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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