

# Annual governance report

Cumbria Police Authority

Audit 2010/11






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## Traffic light explanation

Red  Amber  Green 

# Key messages

This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

## Audit opinion and financial statements

My draft unqualified audit report covering the opinion and value for money conclusion is at appendix 1. The financial statements were prepared and submitted for audit on time.

The Authority has had to prepare accounts to comply with the International Financial Reporting Standards (IFRS) code for the first time this year. This was a challenging task and I am pleased to report the Authority re-stated its 2009/10 accounts and produced its 2010/11 accounts to a good standard. Only a limited number of amendments have been made to the accounts and related disclosure notes to ensure the financial statements give a true and fair view and to comply with first year adoption of IFRS.

## Value for money

I intend to issue an unqualified conclusion stating that the Authority had proper arrangements to secure economy, efficiency and effectiveness in its use of resources for 2010/11.

# Before I complete my audit

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## I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

### **Independence**

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2010/11.

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## I ask you to confirm to me

### **I ask the Governance Committee to:**

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
  - consider the unadjusted errors in the statements which are set out in this report (Appendix 3). If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter;
  - approve the letter of representation, provided alongside this report, on behalf of the Authority before I issue my opinion and conclusion; and
  - agree your response to the proposed action plan (Appendix 5).
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# Financial statements

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The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As Authority members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

## Key audit risks I identified when planning the audit

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. I reported these to you in March 2011 when I updated my Opinion Audit Plan.

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## Key audit risk and our findings

Key audit risk	Finding
<b>1. First time adoption of IFRS</b> Preparation of accounts which comply with Code of Practice for Local Authorities based on International Financial Reporting Standards – risk of non compliance with new standards.	I have reviewed the re-stated 1 April 2009 position and the restated 2009/10 accounts. Information was produced on time and in the agreed format and was supported by well evidence working papers. Only a few minor issues were identified.  I have reviewed the 2010/11 financial statements for compliance with the IFRS based Code and I found only a limited number of amendments were required as outlined in the following sections and Appendix 2 and 3.

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# Financial statements

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**I plan to issue an unqualified audit report covering the opinion and value for money conclusion. The financial statements were prepared and submitted for audit on time. They were of a good standard with only limited amendments made to the accounts and related disclosure notes.**

## **Opinion on the financial statements**

Subject to satisfactory clearance of any outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report.

## **Errors in the financial statements**

Appendix 2 summarises the errors which have been amended in the revised set of accounts. I also identified the errors and omissions in the required disclosures which have also been amended and these are also included at Appendix 2 for completeness.

Appendix 3 summarises the unadjusted errors which management has decided not to amend. You will need to confirm your acceptance of and the reasons for this decision in the letter of representation.

# Financial statements

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## Significant weaknesses in internal control

I have not identified any significant weaknesses in internal control that are relevant to the preparation of the financial statements.

# Financial statements

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## Quality of your financial statements

The Authority produced its IFRS based accounts on time and to a good standard. There are a few areas for improvement in 2011/12.

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

These are the issues I want to raise with you.

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### Accounting practices, policies, estimates and financial disclosures

Issue	Findings and recommendations
<p><b>1. Depreciating assets</b></p> <p>In our 2009/10 Annual Governance Report we reported that a number of IT assets had been depreciated over four years rather than five due to an error in the formula in the asset register (spreadsheet). Finance staff have undertaken a further review of the IT asset register and identified that this has happened to other IT assets.</p>	<p>A further review of the IT asset register by Finance staff, as part of the production of the 2010/11 accounts, has identified other IT assets where depreciation has been charged at a quicker rate than planned. This has resulted in a cumulative overstatement of depreciation on IT assets prior to 2010/11 of £1,264,000 meaning that IT assets should have been £1,264,000 higher at 1 April 2010. The depreciation charge for 2010/11 as per the IT asset register was calculated as £2,443,000, which has then been reduced by the overcharge by £1,264,000, creating a net depreciation charge for 2010/11 of £1,178,000. By reducing the annual depreciation charge for 2010/11 to reverse the overcharge brought forward from previous years the Authority has ensured that the value of IT assets at 31 March 2011 is materially correct. This is not a material in year adjustment and the Authority does not need to make a prior period adjustment.</p>

## Issue

### 2. Accounting for redundancies

There is a voluntary redundancy scheme in place and there is likely to be a significant increase in the volume of redundancies in 2011/12 and onwards. The Authority will need to ensure that it has all available information to ensure that it accounts for them correctly.

## Findings and recommendations

With a significantly increasing redundancy programme in 2011/12 onwards there will be a need for a good exchange of information between HR and Finance, especially near the year end, so that Finance stand can assess how to account for this correctly. Consideration will also need to be given to of the cost of redundancies agreed prior to the approval of the accounts.

## Recommendations

- R1** Ensure that all assets are depreciated at the correct rate so that assets values are correctly disclosed in the accounts.
- R2** Ensure that there is a good exchange of information between HR and Finance throughout the year, and especially near the year end, so that Finance staff can assess how to account for redundancy costs as part of the accounts closure in 2011/12.

# Financial statements

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## Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements.

# Value for money

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**I am required to conclude whether the Authority put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.**

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

I intend to issue an unqualified conclusion stating that the Authority had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

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## Value for money criteria and our findings

Criterion	Findings
<p><b>1. Financial resilience</b></p> <p><b>The organisation has proper arrangements in place to secure financial resilience.</b></p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The Authority has adequate systems and processes in place to manage financial risks effectively. This has helped it secure a stable financial position that enables it to continue to operate for the foreseeable future.</p> <p>Since September 2010 there have been a number of updates to the medium term forecasts with the Authority updated its Medium Term Financial Plan (MTFP) in February 2011. This highlighted the level of savings to be made over the next four years. In July 2011 Her Majesty's Inspectorate of Constabulary (HMIC) reported on Cumbria Constabulary's preparedness to meet the challenges over the next four years. They concluded the Authority and Constabulary 'clearly understood the scale of the challenge facing them, and have considered a full range of options in developing a plan to meet it'. They were satisfied that arrangements were in place to deliver this plan.</p>

## Criterion

## Findings

The Authority intended to use £3.73 million of usable revenue reserves in 2010/11 but actually added £2.84m to usable revenue reserves. Usable revenue backed reserves, such as the General Fund and earmarked reserves, including capital reserves at 31 March 2011 were £22.01 million, a 14.8% increase on the previous year. In 2010/11 the Authority's net expenditure underspend was £5.52 million on its original budget. This was due to a recruitment freeze for both officers and staff for much of the year, as part of the Chief Constable's Change Programme, slippage in the capital programme meaning the planned use of revenue reserves not required in year and increased grant and general income.

### 2. Securing economy efficiency and effectiveness

#### **The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.**

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The Authority and Constabulary have put in place 'The Major change programme'. This alongside the recruitment freeze in 2010/11 has contributed significantly to meeting the savings required for 2011/12. HMIC reported in July 2011 that 'there was clear evidence that both chief officers and Authority members were actively involved in the governance of the change programme'. In January 2011 the Authority introduced a new committee structure, in response to a joint Audit Commission / HMIC inspection report. In July 2011 HMIC reported that this should 'ensure that it provides effective oversight and monitoring of progress against the financial forecast'. The approach to efficiency savings is well developed and progress being made on collaborative procurement.

# Appendix 1 - Draft audit report

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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUMBRIA POLICE AUTHORITY

### Opinion on the Authority and Pension Fund accounting statements

I have audited the accounting statements and the police pension fund accounting statements of Cumbria Police Authority for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. The police pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Cumbria Police Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### Respective responsibilities of the Treasurer and auditor

As explained more fully in the Statement of the Treasurer's Responsibilities, the Treasurer is responsible for the preparation of the Authority's Statement of Accounts, including the police pension fund accounting statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting

policies are appropriate to the Authority and Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority and the Pension Fund; and the overall presentation of the accounting statements. I read all the information in the Explanatory Foreword and Introduction by the Treasurer to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on accounting statements**

In my opinion the accounting statements:

- give a true and fair view of the state of Cumbria Police Authority's affairs as at 31 March 2011 and of its income and expenditure for the year then ended;
- give a true and fair view of the financial transactions of the police pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

### **Opinion on other matters**

In my opinion, the information given in the Explanatory Foreword and the Introduction by the Treasurer for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

### **Matters on which I report by exception**

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

### **Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### **Authority's responsibilities**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

## **Auditor's responsibilities**

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

## **Basis of conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## **Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Cumbria Police Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

## **Certificate**

I certify that I have completed the audit of the accounts, including the police pension fund accounting statements, of Cumbria Police Authority in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Gina Martlew

September 2011

Officer of the Audit Commission

Audit Commission

2nd Floor Aspinall House

Aspinall Close

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# Appendix 2 - Amendments to the draft financial statements

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I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

## Notes to the accounts and other disclosure issues

Issue	Findings and outcomes
<p><b>Introduction by the Treasurer</b></p> <p>The table on page 11 showed the outturn variances against the original budget. However, the budget for revenue contributions for capital had been netted off below the net operating expenditure line.</p>	<p>The table showing the outturn variances against the original budget in the Introduction by the Treasurer has been updated so that:</p> <ul style="list-style-type: none"><li>■ the original budget of £3,419,000 for revenue contributions to capital included within budgeted gross operating expenditure analysis'</li><li>■ actual revenue contributions to capital of £1,505,000 included within actual outturn gross operating expenditure analysis'; and</li><li>■ narrative under table updated to show net operating expenditure was £5.5 million under the original budget.</li></ul>

## Issue

### Prior Period Adjustment (PPA)

The Authority is now accounting for police officer injury benefits under IAS19. This is the first year that the Authority's pension liability has included it and therefore it is a change in accounting policy. This needs to be reflected as a PPA in the accounts.

### Transition to IFRS based accounts

Note 1.a on accumulated absences discloses the opening and closing figures for debtors and creditors in the 2009/10 signed accounts. However, these did not agree back to the audited accounts.

### Balance sheet – related notes

Note 7 on Property, Plant and Equipment (PPE) contained an error. Additions in respect of Vehicles, IT and Furniture Equipment and Plant were incorrectly classified as enhancements.

Note 9 on intangible assets did not disclose the period over which they were amortised or where in the CIES this was charged.

Note 10 on financial instruments incorrectly included council tax debtors and creditors which are statutory requirement and therefore not financial instruments.

## Findings and outcomes

The accounts have been updated so that:

- Explicit commentary in respect of injury benefits as a PPA has been disclosed in the notes to the accounts;
- Note 1 updated to shown impact on net worth and Comprehensive Income and Expenditure Statement;
- The Movement in Reserves Statement (MiRS) has been amended to reflect the impact of the PPA on the beginning of the earliest comparative period – 1 April 2009.

Additional disclosure has now been included within Note 1 to provide a fuller reconciliation between the audited 2009/10 figures and the re-stated figures used in the 2010/11 accounts.

Note 9 on PPE updated to show that:

- Vehicles additions now £974,000 and enhancements nil;
- IT assets additions now £2,009,000 and enhancements nil;
- Furniture Equipment and additions now £46,000 and enhancement nil.

Note 9 updated to disclose:

- all intangible assets are amortised over five years;
- the lines in the CIES where the amortisation is charged.

Note 10 amended to remove:

- £875,578 of council tax debtors at 31 March 2011 from financial assets in the line debtors – financial assets carried at contract amounts. Corresponding reductions of £751,646 and £745,961 were made to the 31 March 2010 and 1 April 2009 figures; and
- £707,530 of council tax creditors at 31 March 2011 from financial liabilities the line creditors – financial assets carried at contract amounts. Corresponding reductions of £726,509 and £862,802 were made to the 31 March 2010 and 1 April 2009 figures.

Issue	Findings and outcomes
<p>Note 18b on assets and liabilities in relation to retirement benefits had excluded one principal assumption used by the actuary.</p>	<p>Note 18b updated to add long term expected rate of return on assets – other of 7.5 per cent for both 2009/10 and 2010/11 for the local government pension scheme.</p>
<p><b>CIES – related notes</b></p> <p>Note 24.c provides a summarised analysis of segmental reporting of income and expenditure to the Constabulary’s Chief Officer Group (COG). However, the note has shown the three Basic Command Units (BCUs) as one segment although reported as individual BCUs to COG. The Code requires that these should be separately identified in the note as their expenditure is above 10% of gross expenditure.</p>	<p>Note 24 updated to show separately the income and expenditure relating to the North, South and West BCUs.</p>
<p>Note 33 on grant income credited to services (others) was incorrectly shown as £236,000.</p>	<p>Note 33 updated to show grant income credited to services (others) as £189,000. This was caused by an error in the supporting working paper.</p>
<p><b>Annual Governance Statement</b></p> <p>Minor changes to wording in the Annual Governance Statement.</p>	<p>Additional wording included in the AGS to confirm the Police Authority:</p> <ul style="list-style-type: none"> <li>■ has been advised of the results of the review of the effectiveness of the Authority’s governance framework and remain satisfied with the arrangements in place to address areas of weakness and to secure continuous improvements; and</li> <li>■ will over the coming year address the matters identified by this review to further enhance our governance framework. We are satisfied that the arrangements in place will secure the improvements identified and will monitor their implementation and effectiveness as part of our next annual review.</li> </ul>
<p><b>Other</b></p> <p>Minor amendments and inconsistencies within the accounts.</p>	<p>A number of minor amendments were made to the accounts to correct inconsistencies between notes and the primary statements, errors in terminology, page referencing and Code disclosure requirements.</p>

# Appendix 3 - Unadjusted misstatements to the financial statements

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements.

If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £	Cr £	Dr £	Cr £
<b>Non trivial errors</b>					
Photocopier leases and four Livescan units are currently charged as revenue to the CIES. These assets meet the criteria of a finance lease, however the Authority have chosen not to amend the accounts, due to the immateriality of the balance involved.	The proposed adjustment would be to treat the assets as finance leases rather than operating leases. This would bring the assets and finance lease liability onto the face of the balance sheet with corresponding liabilities.	Depreciation 72,000	72,000 split between interest charged to the CIES and cash charged to the Balance Sheet	PPE 117,000	Finance Lease liability 117,000

The assets would then be  
depreciated through the CIES  
over the life of the lease.  
Estimated entries would be as  
follows:

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# Appendix 4 - Glossary

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## Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

## Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

## Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

## Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

## Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term 'materiality' applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

'Significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

## Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

## Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

# Appendix 5 - Action Plan

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## Recommendations

### Recommendation 1

Ensure that all assets are depreciated at the correct rate so that assets values are correctly disclosed in the accounts.

<b>Responsibility</b>	Accountancy Services Manager
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<b>Priority</b>	High
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<b>Date</b>	31 May 2012
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#### Comments

### Recommendation 2

Ensure that there is a good exchange of information between HR and Finance throughout the year, and especially near the year end, so that Finance staff can assess how to account for redundancy costs as part of the accounts closure in 2011/12.

<b>Responsibility</b>	Director of Finance & Resources and Director of Personnel & Development
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<b>Priority</b>	High
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<b>Date</b>	30 April 2012
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#### Comments

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September 2011