

# Annual Audit Letter

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Cumbria Police Authority

Audit 2009/10

**The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.**

**Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.**

**As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.**

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# Key messages

**This letter summarises my findings from the 2009/10 audit. My audit comprises two elements:**

- **the audit of your financial statements (page 4); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 5 to 8).**

## **Audit opinion and financial statements**

**1** I issued an audit report including an unqualified opinion on the financial statements on 24 September 2010.

**2** The 2009/10 financial statements presented for audit did not include any material errors but the overall number of errors within the financial statements has increased from the previous year. Finance staff worked hard to implement new accounting arrangements for the Private Finance Initiative (PFI) and recognising Council Tax income and these were supported by good quality working papers. Quality assurance arrangements need to be improved to minimise the overall number of errors in the financial statements in future years.

**3** The Authority is required to prepare its 2010/11 accounts under new International Financial Reporting Standards (IFRS). Work has focused on calculation of employee benefits and accounting for the PFI scheme. Work now needs to focus on re-stating the 2008/09 and 2009/10 accounts and this will be reported to Members in early 2011.

## **Value for money**

**4** I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I issued an unqualified value for money conclusion on 24 September 2010, stating the Authority had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Current and future challenges

**5** In common with all public sector organisations the Police Authority faces significant financial challenges in 2010/11 and over the following four years. The economic downturn, and the recent Spending Review (SR) announcement of revenue and capital funding reductions for police authorities, will place the Authority under increased financial pressures.

**6** The Authority has a good record of securing efficiency savings. A recruitment freeze is in place and cuts already made will reduce police officer and police staff numbers by the end of March 2011. The Authority is required to make projected annual savings so that, by 2014/15 annual revenue spending will be £7.7 million less than current spending but £18 million to £20 million less in real terms. Members and the Chief Constable will need to make informed decisions about where savings are to be made so as to minimise the impact on frontline policing.

**7** In July 2010 the government announced proposals to change the way in which the governance of police services is provided in future. The proposals include that, following elections in May 2012, Police Authorities will be replaced by an elected Police and Crime Commissioner together with a Police and Crime Panel. The consultation has ended and final details have yet to emerge but meanwhile Cumbria Police Authority continues to have an important role in ensuring quality policing services are delivered despite reducing resources.

# Financial statements and annual governance statement

**The Authority's financial statements and annual governance statement are an important means by which the Authority accounts for its stewardship of public funds.**

**I gave an unqualified opinion on the Authority's 2009/10 financial statements on 24 September 2010.**

## **Overall conclusion from the audit**

**8** I issued an audit report including an unqualified opinion on the financial statements on 24 September 2010.

**9** The 2009/10 financial statements, authorised for issue by the Treasurer, did not include any material errors but the overall number of errors within the financial statements has increased from the previous year. Management agreed to amend the financial statements for most identified errors and omissions.

**10** It is clear that Finance staff have worked hard to implement new accounting arrangements for the Private Finance Initiative (PFI) and recognising Council Tax income and these were supported by good quality working papers. A closedown plan was in place but quality assurance arrangements need to be improved to minimise the overall number of errors in the financial statements in future years.

## **Implementation of International Financial Reporting Standards (IFRS)**

**11** The Authority is required to prepare its 2010/11 accounts under new International Financial Reporting Standards (IFRS). Work has focused on the most significant issues for the Authority. Progress has been made in preparing for this change during 2010 included calculation of employee benefits for the last two years and successfully accounting for the PFI scheme in the 2009/10 accounts.

**12** Finance staff will attend a CIPFA IFRS training course in mid November 2010 and after this will focus on re-stating the 2008/09 and 2009/10 accounts and this will be reported to Members in early 2011. Work will then focus on preparation of skeleton accounts and accounting policies for 2010/11 and full implementation of IFRS.

# Value for money

**I considered whether the Authority is managing and using its money, time and people to deliver value for money.**

**I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.**

## **2009/10 use of resources assessments**

**13** At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on Comprehensive Area Assessment would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

**14** However, I am required by the Code of Audit Practice to issue a value for money conclusion and I used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion. The significant findings from the work I have carried out to support the vfm conclusion were reported in my annual governance report and are summarised below..

**15** I issued an unqualified conclusion on the Authority's arrangements. This means I consider that it has satisfactory arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

## **VFM conclusion**

**16** I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

**17** Table 1 overleaf provides a summary of my findings.

Table 1: Value for money conclusion

Criteria	Adequate arrangements?
<b>Managing finances</b>	
Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	Yes
Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	Yes
Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	Yes
<b>Governing the business</b>	
Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	Yes
Does the organisation produce relevant and reliable data and information to support decision making and manage performance?	Yes
Does the organisation promote and demonstrate the principles and values of good governance?	Yes
Does the organisation manage its risks and maintain a sound system of internal control?	Yes
<b>Managing resources</b>	
Is the organisation making effective use of natural resources?	Yes

## **Managing finances**

**18** The Medium Term Financial Strategy (MTFS) is updated annually and is reviewed for material changes during the course of the year. It included issues in respect of public sector settlements and had different scenarios for pay increases and grant settlements. These will now need to be updated to reflect the outcome of the Spending Review (SR). The Authority and Constabulary have a good understanding of their costs, what drives these, and how they compare with other forces. Cost modelling and review processes have led to improved outcomes including the development of mobile data technology where a better value alternative to the national model was identified and approved. There is a capital programme in place linked to priorities. Quarterly capital programme monitoring reports focus on projected expenditure in a given year and the variance for the life time of the scheme against total budget. This makes it difficult to assess whether the delivery of the capital programme is meeting expectations each year. Quarterly capital monitoring reports should state the budget for the year so that delivery of the capital programme can be clearly assessed and challenged.

## **Governing the business**

**19** The Authority and Constabulary have a robust approach to commissioning based on a clear and up to date understanding of local needs. New ways of delivering services are being pursued, resulting in improved value for money, for example more effective and integrated ICT systems. There is a commitment to ensuring that reported data is accurate and complete with improvements in compliance with national standards. Risk management arrangements are sound. The Constabulary needs to complete its work on assessing strategic partnership risks, and the framework to management them, to strengthen controls and minimise any partnership risk management and governance failures.

## **Managing resources**

**20** In the early part of 2010/11 the Police Authority adopted an Environmental Strategy that will enable it to manage its environmental impact. It has set targets and introduced processes to manage its own performance by reducing its use of energy, fuel, water and raw materials and recycling resources where possible. The Constabulary has set out its commitment to improving sustainability in an Environmental Policy Statement. It has established a baseline for its CO2 emissions and identified the plant and buildings that produce the most carbon. The new Carlisle Basic Command Unit (BCU) headquarters incorporates high percentages of recycled materials and solar pre-heating of hot water. The Authority now needs to ensure that it monitors and reports progress against the delivery of the Environmental Strategy.

## Approach to local value for money work from 2010/11

**21** Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

**22** My work will be based on a reduced number of reporting criteria, specified by the Commission, concentrating on ensuring that the Authority has proper arrangements in place to:

- secure financial resilience; and
- challenge how it secures economy, efficiency and effectiveness.

**23** I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Authority and Constabulary in my annual report to those charged with governance and in my annual audit letter.

## National Fraud Initiative

**24** The National Fraud Initiative is a computerised data matching exercise designed to identify overpayments to suppliers and benefit claimants and to detect fraud perpetrated on public bodies. The referrals from the current exercise were released to participating bodies in February 2009.

**25** The Authority has made effective use of the NFI functionality to identify and appropriately review data matches. From the current exercise no issues have been identified.

# Current and future challenges

**The Authority and Constabulary face significant challenges going forwards as they seek to respond the implications of the economic downturn and cuts in public expenditure announced in the Spending Review.**

## Future developments

**26** In common with all public sector organisations the Police Authority faces significant financial challenges in 2010/11 and over the following four years. The impact of the economic downturn, and the recent Spending Review (SR) announcement of funding reductions for police authorities of approximately 4 per cent per year over the period 2011 to 2015, increases the pressures on public spending. Capital funding to police authorities is to be reduced by 50 per cent. For Cumbria this could mean a reduction of £600,000 a year in capital funding.

**27** Initial projections suggest that the Authority is required to make annual savings so that, by 2014/15 annual revenue spending will be £7.7 million less than current spending but £18 million to £20 million less in real terms. The Authority has a good record of securing efficiency savings with work underway to identify further efficiencies. A recruitment freeze is in place in all but exceptional circumstances. The impact of cuts already made mean that police officer numbers will reduce by 70 and police staff by 130 by the end of March 2011. The Authority had revenue reserves of £19.2 million at 31 March 2010 (£9.7 million of which are currently earmarked for specific projects and £2.1 million committed in respect of capital schemes) and current projections are that these will increase to £20 million by 31 March 2011. The Authority may need to draw on reserves in addressing future funding gaps especially in the early years.

**28** The Police Authority and Chief Constable are committed to minimising the impact on front line policing. It will be December 2010 before the Police Authority receives its final grant settlement and it is clear they will need to make difficult decisions in setting the budget in February 2011. This is likely to include decisions on keeping police stations open, the size of the vehicle fleet and how back office functions are undertaken.

**29** In July 2010 the government announced proposals to change the way in which the governance of police services is provided in future. The proposals include that, following elections in May 2012, Police Authorities will be replaced by an elected Police and Crime Commissioner together with a Police and Crime Panel. The consultation has ended and final details have yet to emerge but meanwhile Cumbria Police Authority continues to have an important role in ensuring quality policing services are delivered despite reducing resources.

## Closing remarks

**30** I have discussed and agreed this letter with the Acting Chief Executive, Treasurer and the Director of Finance and Resources. I will present this letter at the Governance Committee on 23 November 2010 and will provide copies to all Authority members.

**31** Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Police Authority during the year.

Report	Date issued
Annual audit fee 2009/10 letter	24 April 2009
Annual governance report	September 2010
Auditor's report giving an opinion on the financial statements	24 September 2010
Value for money conclusion	24 September 2010
Auditor's assurance statement on whole of government accounts (WGA)	1 October 2010
Annual audit letter	November 2010

## The Audit Commission

**32** The Secretary of State for Communities and Local Government has announced the proposed abolition of the Audit Commission and the transfer of its audit practice to the private sector. This will be from 2012/13 at the earliest and is subject to legislation.

**33** Our priority is to ensure our professional standards and commitment will be maintained. You will see no deterioration in customer service and audit quality.

**34** We are working to develop an independent audit practice to continue beyond the abolition of the Audit Commission, including the option of a potential mutualisation or buy-out. Whatever model we adopt, we will remain committed to providing excellent service to our existing clients.

## Concluding comments

35 The Authority has taken a positive and helpful approach to our audit. I wish to thank the Authority and Constabulary's staff for their support and co-operation during the audit.

Gina Martlew  
Appointed Auditor

November 2010

## Appendix 1 Audit fees

	Actual	Planned	Variance
Financial statements and annual governance statement	63,583	54,783	8,800
Value for money	21,257	21,257	0
Total audit fees	84,840	76,040	8,800
Non-audit work	0	0	0
Total	84,840	76,040	8,800

Since the audit fee was set for 2009/10 in April 2009 I have had to undertake additional work. This has included work on International Financial Reporting Interpretations Committee (IFRIC) 12 on services concessions. Your Private Finance Initiative (PFI) scheme came on balance sheet and I had to undertake work on your valuation and accounting arrangements for the PFI. These are complex and material to your accounts. In addition, although I found no material errors in the accounts, the significant errors I found were corrected and affected the primary statements and many of the notes and the Treasurer's introduction. All of these amendments had to be made by your officers and checked by my staff.

The extra fee agreed with the Treasurer to cover both these areas of additional work is £8,800.

## Appendix 2 Glossary

### **Annual governance statement**

Governance is about how police authorities ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which police authorities are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Police Authority on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

### **Audit opinion**

On completion of the audit of the accounts, auditors must give their 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.

### **Financial statements**

The annual accounts and accompanying notes.

### **Qualified**

The auditor has some reservations or concerns.

### **Unqualified**

The auditor does not have any reservations.

### **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 money, people and time.

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