

Annual Audit Letter

December 2005



# Annual Audit Letter

**Cumbria Police Authority**

**Audit 2004-2005**

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## Key messages

### Accounts and governance issues

- 1 The Authority's insurer's decision not to meet the full cost of the insurance claim in respect of the damage caused by the storms in January 2005 presented the Authority with a major challenge. However, despite this decision the Authority is able to meet these costs from a variety of sources including earmarked reserves and operational savings.
- 2 Members will again face difficult choices in setting a budget for 2006/07 to deliver effective police services, whilst maintaining an adequate level of reserves, and at a time of uncertainty over the impact of the structural review of the police service. The Authority has always adopted a prudent approach to financial management and members will need to ensure that this continues as part of its future financial planning and risk management arrangements. In addition, a decision is still to be made in respect of the Rickergate site and how, in the longer-term, future police services will be delivered in North Cumbria.
- 3 We gave an unqualified opinion on the accounts on 7 October 2005.
- 4 Financial regulations have been in the process of being updated for a number of months and these now need to be finalised, approved and issued to staff.

### Performance

- 5 The Authority is a statutory partner in the Crime and Disorder Reduction Partnerships (CDRPs) which are expected to work closely with the local Drug and Alcohol Action Team (DAAT). We have assessed progress in improving the effectiveness of joint working to reduce the impact of drug use in communities within Cumbria and concluded that there was improved clarity about objectives and outcomes, creating a more collaborative approach across partners. However, progress still needs to be made in addressing weaknesses in equality of access to services.

### Action needed by the Authority and Constabulary

- 6 We set out below the specific actions which need to be taken by members to further enhance the management of the Authority and the Constabulary:
  - ensure the Authority's financial position continues to be closely monitored and that balances are maintained at a prudent level; and
  - support the partnership working involved in tackling the impact of drug use in the local communities.

## Accounts and governance

### Audit of 2004/05 accounts

#### Matters arising from the final accounts audit

- 7 We gave an unqualified opinion on the Authority's accounts on 7 October 2005. Members approved the accounts on 27 July 2005 in accordance with the planned timetable and we completed our audit of the accounts to meet the earlier deadline of 31 October. For 2005/06, the deadline for the production and audit of the accounts comes forward another month to 30 June and 30 September respectively. We will continue to work closely with officers over the coming months to ensure that the earlier deadlines can be met.

#### Report to those with responsibility for governance in the Authority

- 8 We are required by professional standards to report to those charged with governance, in this case the Authority's Audit and Performance Committee, certain matters before we give an opinion on the financial statements.
- 9 Our work on the accounts did not identify any issues of significance that required a formal report and we wrote to the Chair of the Audit and Performance Committee on 6 September 2005 to this effect. However, we did draw the Committee's attention to delays in obtaining an appropriate letter from the Authority's valuer in respect of their assessment of the value of the impairment of the Rickergate property after the storm damage in January 2005. This was received prior to signing the audit opinion.

### Financial standing

#### 2004/05 revenue outturn and balances

- 10 Net revenue expenditure for 2004/05 was £85.19 million, which was £410,000 below the Authority's approved budget for the year of £85.60 million. At 31 March 2005 the Authority had £2.995 million in revenue reserves representing 3.4 per cent of the Authority's net revenue budget for 2005/06, which was in line with previous guidance provided to the Authority by the Treasurer.

## **Financial position in 2005/06**

- 11 The Treasurer and Chief Constable's report to the Audit and Performance Committee in early November 2005 highlighted a projected underspend in 2005/06 of around £275,000 after the additional part funding of two IT schemes. However, the report commented that these figures did not include the financial impact of the Authority's insurer informing the Authority in mid-October 2005 that they were not prepared to meet the full cost of the insurance claim in respect of the damage caused by the storms in January 2005. On 10 November 2005 the Treasurer and Chief Constable reported to the Authority on the overall gross cost of the storm to the Authority for the two years 2004/05 and 2005/06 and the net cost after settlement from the insurer on some elements of the claim. A further £0.32 million is likely to be required in 2006/07 and beyond to pay for the continuing cost of the custody and accommodation arrangements in North Cumbria. Although the Authority may challenge the insurer's decision a number of options to finance the shortfall have been agreed and reported to the Authority on 15 December 2005. The costs can be met in full from a variety of sources including earmarked reserves for storm damage and operational savings now identified in the latest budget monitoring report, including revenue savings on the airwave project and staff vacancies.

## **Capital programme 2005/06**

- 12 The capital budget for 2005/06, including carry forwards from 2004/05, was reported in September 2005 as being £11.20 million with a further £1.56 million approved for future years. This overall capital programme to be delivered in 2005/06 is much larger than in previous years due to the effects of major slippage from 2004/05. The management of slippage in 2005/06 will become more important following the decision to defer contractually committing to the IMPACT record management system pending clarification by the Home Secretary on merger proposals and compatibility of the selected system with those of potential merger partners.

## Medium-term financial planning

- 13 In June 2005, the Treasurer and Chief Constable reported to the Authority on the medium-term financial forecasts for 2005/06 to 2008/09. This showed that, based on the cost of providing existing services, and known unavoidable commitments at the time, savings of around £2.9 million would be required over the next three years with £1.02 million required for 2006/07. However, the expenditure assumptions and funding streams in the report were further clouded by government proposals, now confirmed, to introduce new funding arrangements for police pensions from 1 April 2006, and to offset the costs through the principal police grant and requiring an actuarially based contribution from employers. In addition, the Treasurer has reported to the December 2005 meeting of the Authority on the new spending needs assessment formulae which have been introduced into the annual grant settlement for 2006/07 and the replacement of the former grant equalisation arrangements. Transitional arrangements have protected the Authority from immediate loss of grant in the two-year period covered by the Settlements announced at the beginning of December 2005.
- 14 However, these medium-term financial forecasts were based on the assumption that the Authority's insurer would meet the full cost of the insurance claim in respect of the damage caused by the storms in January 2005. Although it is likely that the Authority will be able to finance the identified shortfall for 2004/05 and 2005/06 there are still issues for 2006/07 and beyond of funding the annual cost of £0.32m for the custody and accommodation arrangements in North Cumbria. In addition a decision is still to be made in respect of the Rickergate site and how, in the longer-term, future police services will be delivered in North Cumbria.
- 15 Members will face difficult choices in setting a budget for 2006/07 to deliver effective police services, whilst maintaining an adequate level of reserves, and at a time of uncertainty as a result of the structural review of the police service initiated by the Home Secretary. Increasing emphasis on medium-term financial planning and the use of risk assessments will be key to managing the Authority's ability to achieve its strategic objectives. The Authority has always adopted a prudent approach to financial management and, despite the current background of uncertainty, members will need to ensure that this approach continues as part of its future financial planning.

## Systems of internal financial control

- 16 We have not identified any significant weaknesses in the overall control framework. Last year, we reported the need to progress risk management arrangements within the Authority and the Constabulary and within both there is recognition that each will have their own separate risks as well as common or shared risks. The current changing environment means that both the Authority and Constabulary will need to ensure that both individual and shared risks continue to be promptly identified and managed.

## **Standards of financial conduct and the prevention and detection of fraud and corruption**

- 17 We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption. However, we know that financial regulations have been in the process of being updated for a number of months and this work needs to be concluded. The revised financial regulations should be approved and issued to staff.

## **Legality of transactions**

- 18 We have not identified any significant weaknesses in the framework established by the Authority for ensuring the legality of its significant financial transactions.

## Performance

### HMIC's baseline assessment

- 19 In October 2005, Her Majesty's Inspectorate of Constabulary (HMIC) reported on the outcome of its second baseline assessment for all police forces. Cumbria Constabulary was assessed over seven key policing areas which were further broken down into a total of 26 judgements. Of the 26 judgements Cumbria scored good in 9, fair in 14 and poor in 3.
- 20 The HMIC report also outlined a direction of travel for 21 of the judgements with Cumbria showing an improved performance in 8 areas, a stable position in 11 and only 2 areas of deterioration which related to reducing and investigating volume crime.

### Performance information

- 21 We are currently finalising our statutory audit of your 2005/06 best value performance plan (BVPP) elements integrated within the Annual Policing Plan. Our review identified that a number of the required best value performance indicators (BVPIs) were not included within the original plan and an addendum will be published to address this issue. At this stage, subject to the issuing of an addendum of performance indicators, I am not aware of any issues that will prevent us from reporting that the plan complies with legislation and supporting Home Office guidance.
- 22 The Authority has chosen to demonstrate comparison of performance against BVPIs in the previous year by setting out the scale of change between 2003/04 and 2004/05 figures. However, the scale of change is shown in an inconsistent manner presenting a confusing picture of changes in performance. The plan could be improved by ensuring that all the required performance information is included and being clearer about comparative performance with the previous year making the plan more valuable as a way of reporting and comparing performance between years and against other forces.

### Safer communities - reducing the impact of drug use within communities follow-up

- 23 In September 2004, we carried out a review of the effectiveness of the public sector organisations in Cumbria in tackling the impact of drug use in their communities. The review considered the work of the individual agencies as well as interventions delivered via the formal partnerships of primarily the Drug and Alcohol Action Team (DAAT) and Crime and Disorder Reduction Partnerships (CDRPs).

- 24 The report contained nine recommendations which focused on what needed to be done by each organisation. There was a strong emphasis on the need for more active co-operation and closer joint working between the various public sector agencies, including the police service, if communities and service users were to see real improvements. The first part of a two stage review of progress, to assess the extent to which the recommendations have been delivered so far, was carried out in the summer of 2005. A second more detailed stage is planned for 2006.
- 25 The review concluded that there has been progress since 2004. Partnership working at a local level through the CDRPs is improving with greater commitment from some of the key agencies. The quality of planning in the DAAT and the CDRPs has improved and the clarity about objectives and outcomes that this has brought is helping to create a more co-operative and collaborative approach so that the partnerships are less isolated. Better plans are also leading to better performance management.
- 26 A major concern is the failure to address the weaknesses in equality of access to services and understanding of the diverse needs of communities. The agencies and their partnerships still do not have a picture of need in the county to which they can effectively target efforts and resources.
- 27 Our report in September 2004, highlighted the lack of county-wide strategic leadership in tackling the impact of drug misuse. There has been some progress in addressing this through the formation of the Cumbria Joint Agencies Group (JAG) although this currently has a relatively narrow remit. There has also been a renewed commitment to a revised Cumbria Strategic Partnership (CSP). The CSP has been restructured and is seen as the main vehicle for taking forward Cumbria wide aims for safer, strong and more sustainable communities. The new structure offers the potential to provide more leadership and strategic vision around the drug misuse agenda offering a clear route for accountability and service delivery especially for the DAAT and CDRPs. The commitment of partners is high but yet to be tested and broad aims need to be translated into reality on the ground.
- 28 The review team and representatives of the participating organisations met on 10 October 2005 to consider the contents of this report. Milestones and timescales for delivering the improvements targeted in the original recommendations were revised and agreed; lead responsibilities were assigned for delivering the recommended improvements in full by the time of the second, more in depth review in September 2006. It was agreed that the report should be provided to the CSP in order that through its relevant boards it can have strategic oversight of improvement plans. The CSP can then determine how it wishes to hold its constituent bodies to account for delivery of improvements.

## Other work

### Grant claims

- 29 The Home Office have recently confirmed that they have removed the requirement for audit certification for police grants for 2004/05 and beyond.
- 30 This follows a review of arrangements to obtain adequate assurance about grant monies in accordance with a request from HM Treasury. The key principle from the HM Treasury request is that the audit for grants should be carried out in a way proportionate to the amounts involved and the associated risks. Recipients will need to account for their claims but further certification through formal audit is not always necessary.
- 31 The Home Office have concluded that taking all factors into account they are content to proceed from and including 2004/05 on the basis of annual assurance from the Chief Financial Officer and the Chief Constable.

### National Fraud Initiative

- 32 In 2004/05, the Authority and Constabulary took part in the Audit Commission's National Fraud Initiative (NFI 2004/05). The NFI, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector. These include payroll and housing benefit fraud, with the details of housing benefit fraudsters being passed back to the employing body to allow them to consider the implications and take action as appropriate.
- 33 Where little or no such fraud is identified then the Authority can gain assurance about internal arrangements for preventing and detecting fraud.
- 34 The NFI 2004/05 results, were distributed on CD-ROM on 31 January 2005 and participating bodies are required to provide savings returns reporting progress made as at 31 May 2005, 30 September 2005 and 31 December 2005.
- 35 Our initial assessment indicated that Cumbria Police Authority and the Constabulary are low risk organisations for fraud, with a relatively low number of matches requiring further investigation. We are currently working with your key contact to review the detail of a sample of matched cases to ensure your review procedures are effective. We will complete our work in the early part of 2006 and report as required.

## Future audit work

- 36 We have an agreed plan for 2005/06 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2005/06 accounts and the delivery of the police data quality and activity based costing (ABC) audits, will be reported in next year's Annual Letter.
- 37 We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the Authority. We will continue with this approach when planning our programme of work for 2006/07. We will continue to develop our relationship with HMIC to ensure a co-ordinated approach to regulation.

## Revision to the Code of Audit Practice

- 38 The statutory requirements governing our audit work are contained in:
- the Audit Commission Act 1998; and
  - the Code of Audit Practice (the Code).
- 39 The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan which was agreed with the Audit and Performance Committee in June 2005. The key changes include:
- the requirement to draw a positive conclusion regarding the Authority's arrangements for ensuring value for money in its use of resources; and
  - a clearer focus on overall financial and performance management arrangements.

## Working with HMIC

- 40 HMIC currently undertakes a baseline assessment of every police force. The methodology is similar to that of the Comprehensive Performance Assessment (CPA) for local authorities and it includes an assessment of financial management and financial standing.
- 41 In the past, this assessment has been undertaken by a member of HMIC staff. To reduce potential for overlaps and secure greater consistency in reporting it is proposed that in future the Audit Commission would develop and produce a use of resources judgement for all police forces and that HMIC would rely on this judgement and incorporate it into the baseline assessment.
- 42 Negotiations are at an early stage but we would aim to have the new arrangements in place for the 2006/07 audits which would mean that a use of resources judgement would be given in July/August 2006 to feed into the HMIC baseline assessment reports which are published each October.

## Closing remarks

- 43 This letter has been discussed and agreed with the Clerk to the Authority, the Treasurer and the Director of Finance and Resources. A copy of the letter will be presented at the Authority meeting in January 2006.
- 44 The Authority has taken a positive and constructive approach to our audit and I would like to take this opportunity to express my appreciation for the Authority's and Constabulary's assistance and co-operation.

## Availability of this letter

- 45 This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk) and also on the Authority's website.

Michael Thomas  
District Auditor  
December 2005

## Appendix 1 – Background to this letter

### The purpose of this letter

- 1 This Annual Audit Letter summarises the conclusions and significant issues arising from our recent audit of the Authority.
- 2 We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 2 for information.
- 3 The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.
- 4 Appendix 3 provides information about the fee charged for our audit.

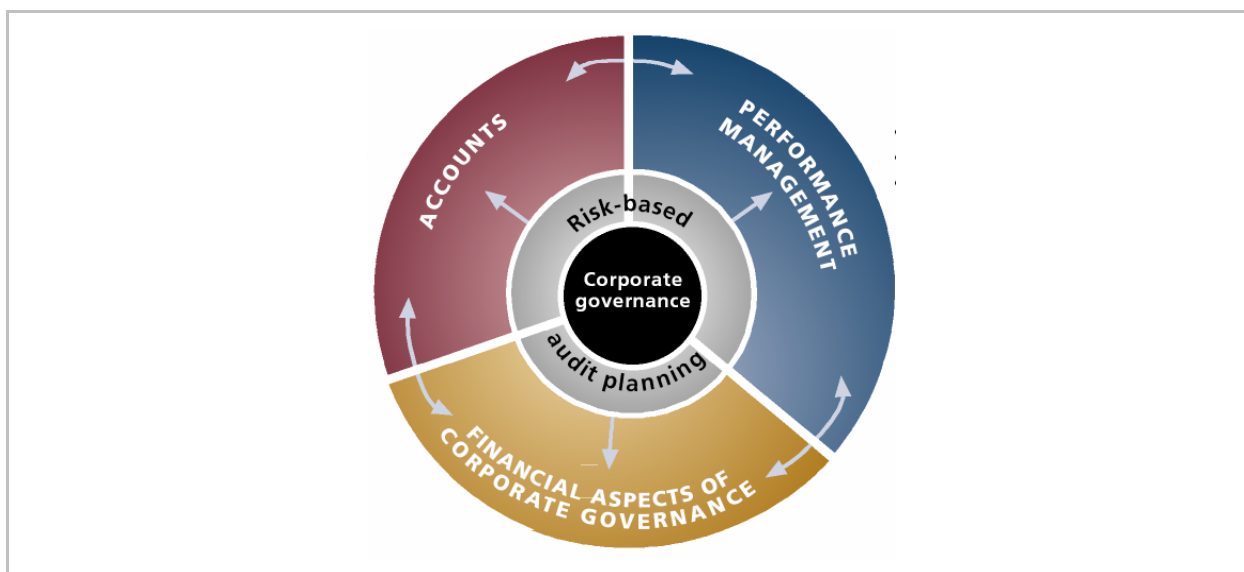
### Audit objectives

- 5 Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on the significant risks that are relevant to our audit responsibilities.

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#### Figure 1 Code of Audit Practice

Code of practice responsibilities



- 6 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as shown below.

### **Accounts**

- Opinion

### **Financial aspects of corporate governance**

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct and the prevention and detection of fraud and corruption.
- Legality of transactions.

### **Performance management**

- Use of resources.
- Performance information.
- Best value performance plan.

## Appendix 2 – Audit reports issued

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**Table 1**

<b>Report title</b>	<b>Date issued</b>
Audit Plan 2005/06	March 2005
Letter on the 2004/05 Financial Statements to Those Charged with Governance (SAS 610)	September 2005
Final Accounts Memorandum and Audit Opinion	October 2005
Cumbria Safer Communities – Follow-up (Stage 1)	October 2005
BVPP Audit Opinion	December 2005
Annual Audit Letter	December 2005

## Appendix 3 – Audit fee

**Table 2      Audit fee update**

<b>Audit area</b>	<b>Plan 2004/05 (£)</b>	<b>Actual 2004/05 (£)</b>
Accounts	21,590	21,590
Financial aspects of corporate governance	20,760	20,760
Performance	28,490	28,490
<b>Total Code of Audit Practice fee</b>	<b>70,840</b>	<b>70,840</b>