

# Annual Audit Letter

## Cumbria Police Authority

### INSIDE THIS LETTER

#### PAGES 2 - 10

- Executive Summary
- Key messages
- Accounts and Governance
- Authority and constabulary performance
- Other work
- Looking forwards
- Closing remarks

#### PAGES 11 - 13

##### **Appendix 1**

- Reports issued

##### **Appendix 2**

- Objectives of audit

##### **Appendix 3**

- Audit fees

|                   |  |
|-------------------|--|
| <b>Reference:</b> | Police - AAL 2003-04 - Draft3Draft Version 1 |
| <b>Date:</b>      | December 2004                                |

## Executive Summary

### The purpose of this letter

This 'Annual Letter' for members summarises the conclusions and significant issues arising from our recent audit of the authority.

We have issued separate reports during the year. These reports are listed at Appendix 1 for information.

Appendix 2 sets out the scope of audit.

Appendix 3 provides information about the fees charged.

## Key messages

### Accounts and governance issues

#### **Audit of 2003/04 accounts**

We gave an unqualified opinion on the authority's accounts on the 26 November 2004.

#### **Financial standing**

Overall balances remain at a prudent level. Although the authority was successful in reducing the impact of being nominated by the secretary of state it still faces increasing financial pressures. This means that members will face some difficult choices in setting the 2005/06 and future budgets.

#### **Systems of internal financial control**

We have not identified any significant weaknesses in the overall control framework. Our work identified that the constabulary had made a positive start to implementing strategic risk management but that progress slowed during the year and is only now starting to get back on track. The authority has started to consider its own risks and has an important role in risk management and the implementation of effective monitoring and action planning arrangements.

#### **Activity based costing (ABC)**

One area which did not feature prominently in the control framework was the review of progress on ABC. The constabulary was marked as 'weak' for its systems and arrangements for producing Activity Based Costing information and 'poor' for the quality of data. Although the costing model is compliant and the ledger structure compatible with ABC, improvements are clearly needed to the project management and quality assurance arrangements to ensure the accuracy and reliability of ABC submissions in this and future years.

### Authority and constabulary performance

#### **Data quality**

Cumbria was one of only three authorities in England & Wales that showed a deterioration in the overall assessment category from the previous year's review. The overall assessment and the results of data testing and review of management arrangements all received a 'red' rating, identifying some serious problems to be resolved.

#### **Safer communities review**

We assessed the effectiveness of current arrangements for tackling the impact of drug abuse in Cumbria and found that various agencies are not delivering, in partnership, outcomes that improve the lives of local people. We have presented our analysis of the arrangements to the partners, including representatives of Cumbria Constabulary and the Police Authority in October and November 2004. We will be issuing a report before the end of 2004 encouraging the constabulary and authority to consider how it can contribute to improved outcomes, particularly for the young people of Cumbria.

#### **Best value**

We will issue an unqualified opinion on the 2004/2005 BVPP but there is a need to ensure that all the required performance information is included in the plan to ensure it is as meaningful a document for reporting and comparing performance as possible.

#### **Information management**

Good progress had been made on putting in place new structures, improving expertise and raising the profile of information management and technology in the constabulary. However, work on developing strategies for information management, information systems and information technology has made less progress and a revised approach has now been agreed to improve progress.

## Action needed by the authority and the constabulary

We set out here key recommendations from our work for members attention:

- ensure that the authority's longer term financial position is closely monitored;
- implement quality assurance arrangement to ensure the accuracy and reliability of activity based costing information;
- develop and refine risk management arrangements;
- ensure that the detailed action plan arising from our data quality report is implemented;
- contribute towards better outcomes for young people and safer communities through partnership working;
- ensure that strategies for information management, systems and technology are developed and approved.

## Accounts and Governance

### Audit of 2003/04 accounts

We gave an unqualified opinion on the authority's accounts on the 26 November 2004.

#### Matters arising from the final accounts audit

The published accounts are an essential means by which the authority reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. Members approved the authority's annual accounts on 24 August 2004.

The timeliness in producing the accounts will become increasingly important over the next

two years as the deadline for completion of the accounts is brought forward in line with the Government's requirement. Whilst the accounts have been prepared to meet the requirements this year, the deadlines will become increasingly more difficult to achieve and will require early planning and thoughtful scheduling of key meetings next year.

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

We are required, by professional standards, to report to those charged with governance certain significant matters before we give an opinion on the financial statements. In your case those charged with governance are the members of the audit and performance committee.

We made a number of changes to the financial statements as a result of a change in accounting treatment in respect of setting aside monies to fund future pension liabilities. These changes arose during the audit when greater clarity was obtained as to their treatment but had no impact on the overall financial position of the authority reported and approved in August 2004. We therefore concluded that there were no significant issues that we needed to discuss with members this year before issuing our opinion and this was confirmed in a the letter sent to the chair of the audit and performance committee on 22 November 2004.

### Financial standing

Overall balances remain at a prudent level. Although the authority was successful in reducing the impact of being nominated by the secretary of state it still faces increasing financial pressures. This means that members will face some difficult choices in setting the 2005/06 and future budgets.

#### General fund spending and balances

For 2003/04 net revenue expenditure was £79.454m, which was £288k below the authority's approved budget for the year of £79.742m. The authority's financial position as reported in the statement of accounts is the same position as was reported to the authority in July 2004 and shows sound financial control and monitoring arrangements.

At 31 March 2004 the authority had £2.585m in revenue reserves representing 3% of the

authority's net revenue budget for 2004/05, which was in line with the guidance provided to the authority by the treasurer in February 2004.

### **Financial position in 2004/05**

The treasurer and chief constable's report to the audit committee at the end of November 2004 highlighted significant budget variances resulting in a projected underspend in 2004/05 of around £1.051m after the agreed contribution to earmarked reserves. However, the report suggested further proposals to earmark other funds as a result of a number of recent developments and the anticipated tight settlement for 2005/06.

### **Capital programme 2004/05**

The capital budget for 2004/05, including carry forwards from 2003/04, was reported in September 2004 as being £7.24m with a further £4.69m approved for future years. By December 2004 the budget for 2004/05 was revised downwards to £5.94m with expenditure expected to be £6.13m, an overspend of £0.19m. The reasons for the budget reduction relate to slippage in two schemes for the National Management Information System (NMIS) and the upgrade to Microsoft XP.

### **Council tax 2004/05 and beyond**

The authority initially considered a 27 per cent increase in its council tax level for 2004/05 which included funding for extra police officers for the local policing teams. After concerns about being capped the authority set a budget for 2004/05 which required a 14.97 per cent increase in the council tax.

At the end of April 2004, after setting its council tax for 2004/05, the authority was informed by the ODPM that the secretary of state had viewed the council tax increase for 2004/05 as excessive and that they were being nominated under section 52D(2)(b) of the Local Government Finance Act 1992. This meant that the secretary of state could set a maximum budget requirement for 2005/06 or set a notional budget requirement for 2004/05 against which increases in the following year will be measured in deciding whether they are excessive. In July 2004, after representations by the authority, the secretary of state set a notional budget for the authority for 2004/05 of

£85.462m. Although this is £138,000 below the actual budget set by the authority its representations were successful in ensuring that the notional budget was higher than the £85.324m notified to them in April 2004.

It is clear that 2005/06 will see limitations being placed on the authority's ability to increase the council tax.

### **Medium term financial planning**

In July 2004 the treasurer and chief constable reported to the authority on the medium term financial forecasts for 2005/06 to 2007/08. This showed that, based on the cost of providing existing services, and unavoidable commitments, savings of around £4m will be required over the next three years with £1.75m required for 2005/06.

Although the authority was successful in reducing the impact of being nominated it still faces increasing financial pressures e.g. first full year effect of the implementation of the airwave project. Members will face difficult choices in setting a budget for 2005/06 to deliver effective police services whilst maintaining an adequate level of reserves. This means that greater emphasis must be placed on medium term financial planning and the use of risk assessments to consider the impact on the authority's ability to achieve its key strategic objectives. The authority's approach to financial management has always been prudent and members will need to ensure that this continues as part of its longer term financial planning.

## **Systems of internal financial control**

### **Activity based costing (ABC)**

ABC is an essential tool in establishing the links between resources used and policing outcomes delivered and is an important element of the Policing Performance Assessment Framework (PPAF) programme.

Last year police forces were asked to develop a plan of how they would generate ABC data in 2003/04. The Audit Commission reviewed key elements of these plans to provide assurance to the Home Office that there was sufficient preparation and commitment to producing ABC

data. This year the Audit Commission, in partnership with the Police Standards Unit, has assessed the accuracy of the Activity Based Costing data submitted to the Home Office.

This year the constabulary was marked as 'weak' for its systems and arrangements for producing Activity Based Costing information and 'poor' for the quality of data. Improvements are needed to the project management and quality assurance arrangements in order to establish confidence in the underlying systems and processes that support the ABC model and to ensure the accuracy and reliability of submissions in this and future years.

Cumbria constabulary has suffered a number of setbacks that reduced its capability for project managing the delivery of ABC this year. Problems with hardware and software and a lack of resources have resulted in an incomplete submission raising doubts about the accuracy of the information.

As the constabulary has already conducted a two-week sampling exercise for the 2004/05 year, action is now required to assess how the weaknesses found in 2003/04 have affected the results of that exercise.

Despite these issues we found that the costing model is compliant, the general ledger structure is highly compatible with ABC, and a good overall return rate. This should allow the constabulary to produce robust Activity Based Costing information in future years provided that the controls used to conduct the sampling exercise are strengthened considerably.

The constabulary and authority have responded positively to these findings and we will continue to provide advice and support where required.

### **Risk management**

The need to review existing risk management arrangements was recognised by the constabulary in 2003. During 2004 we have reviewed progress on the implementation of risk management for both the constabulary and the authority.

Our work concluded that the constabulary had made a positive start to the adoption of strategic risk management with the development of a risk management policy, a risk strategy and production of a risk register. However, the funding situation, experienced in 2004/05,

required a major rethink of resource allocation and priorities and this delayed the development of the risk register and the ratification of the risk management policy and strategy. Despite this there is evidence of risk management principles being considered in the decision making of the constabulary and the authority.

There was clearly a need to re-start the process and build on this early work to progress the approach to risk management. Since we reported there has been progress made within the constabulary, although at a slower pace than planned, and this has included:

- Business Management Board approving the revised risk management policy and strategy in September 2004;
- first meeting of the re-constituted, more strategic, risk management group in November 2004.

Further progress is expected in early 2005 with the updating of the risk register and external training being provided to the risk management group to help them understand and develop their role.

Our work also highlighted the need for the authority to identify its own risks. This was in the process of being planned and in October 2004 a workshop was held for the members of the authority to start to identify key issues and the action being taken to address them. This should help ensure that the authority plays an important role in risk management and the implementation of effective monitoring and action planning.

### **Financial regulations**

During the year revised standing orders and a scheme of delegation have been approved and a procurement handbook produced and issued to senior managers within the constabulary. However, we identified that financial regulations have not been updated since June 2001 and recommended that these are reviewed and approved annually in line with good practice.

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

Our work this year has not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption.

## Legality of transactions

We have not identified any significant weaknesses in the authority's framework for ensuring the legality of its significant financial transactions. Last year we reported that during 2003/04 there had been a significant strengthening of arrangements to support the authority's statutory roles of the chief finance officer (s151 officer) and monitoring officer. The benefits of this have been seen in the authority's ability to provide prompt and detailed responses to the:

- potential impact of the boundary commission recommendations;
- decision of the secretary of state to nominate the authority in connection with its 2004/05 council tax increase.

## Authority and Constabulary Performance

### Data quality

The National Crime Recording Standard (NCRS) was introduced by the Association of Chief Police Officers in April 2002, with the support of the Home Office and Her Majesty's Inspectorate of Constabulary (HMIC). It is intended to promote greater consistency in recording crime, by taking a more victim-oriented approach to recording, and by giving a lead on key difficulties of interpretation.

Last year the Audit Commission undertook a national study of NCRS in partnership with the Police Standards Unit of the Home Office based on local reviews carried out by the Commission's appointed auditors. In 2003 the overall result for the authority was 'amber' within a set of traffic light ratings.

During 2004 we have carried out a follow up exercise which focused upon:

- a review of management arrangements for crime recording, including local arrangements in Basic Command Units (BCUs);
- test sampling of incident and crime records for compliance with NCRS.

Overall results highlighted problems within the constabulary's arrangements for managing crime reporting and recording and there has been a deterioration in performance against data testing. Cumbria was one of only three in England & Wales that showed a deterioration in their overall assessment category from the previous year's review. The overall assessment and the results of data testing and review of management arrangements all received a 'red' rating, identifying some serious problems to be resolved.

In our overall assessment we recognised that the interaction of the police authority with the constabulary on crime recording arrangements has improved since last year. However, although there is a strong commitment to the principles of NCRS, little progress has been made since last year's audit due to a lack of capacity. Adequate priority and resources have not been allocated to address the areas of under-performance identified in 2003.

The most significant issues of non-compliance are:

- insufficient information on the incident log to demonstrate that NCRS has not been breached;
- failure to identify the crime number on incidents that have been 'crimed';
- failure to 'crime' incidents in accordance with the challenging 72 hour time limit;
- failure to make further enquiries and deal with issues of, third party reporting, victims that are unavailable or reluctant to report crimes and harassment.

At a corporate level the constabulary needs to invest significantly in staff training and more integrated and accessible IT systems if performance is to improve overall. More effective crime management processes are also required in order to improve levels of

compliance and performance with regard to NCRS.

The report recommended that the police authority reviews overall constabulary and BCU level progress on NCRS, against staged measures of performance and improvement, as part of its own risk management arrangements.

The constabulary and the police authority are currently implementing a detailed action plan against the key recommendations of the report.

## Safer Communities review

In September 2004 we carried out a review of the organisations and partnerships that are tackling the impact of drug abuse in Cumbria communities.

The review assessed the effectiveness of current activities and partnership working in order to find out what influences good outcomes, what needs to improve and how resources can be deployed more cost effectively to achieve common goals. It involved the six district councils, the county council, police, probation and the four primary care trusts. They are statutory partners in the Crime and Disorder Reduction Partnerships and the Drug Action Team (DAT) and, through these bodies, deliver national drug strategies at a local level commissioning services from a range of local providers.

The review found that:

- dedicated staff deliver some good individual work and local projects;
- partnerships are not delivering consistent outcomes that improve the lives of local people;
- a lack of strategic leadership means that partners do not share a common vision or work together in a consistent and co-ordinated way;
- individual activities do not always support common goals, for example, councils are not using their mainstream activities sufficiently to support delivery of their partnerships aims;
- there is no clear agreed picture of need across the county especially in relation to women and minority ethnic groups;

- information systems are not well integrated and not all partners are committed to sharing data and information. This makes it difficult to plan effectively and to target efforts and resources to achieve maximum impact;
- opportunities to provide better services and access joint funding are missed; and
- many of the weaknesses, inconsistencies and gaps in services are recognised and there is a strong enthusiasm for change.

We have shared our analysis of the current arrangements in Cumbria with key partners, including representatives from the constabulary and the authority. We will be issuing our report shortly which we hope will provide an agenda for action and improvement within each of the responsible organisations.

## Best value

We have recently completed our audit of your 2004/2005 best value performance plan (BVPP), which was combined with the policing plan. Our compliance review of the BVPP concluded that, subject to the issuing of an addendum of performance indicators, it will contain all the key elements required by the statutory guidance and we will issue an unqualified opinion on the BVPP report. However, our review identified that a number of the required best value performance indicators were not included within the original plan and in some case those included were not in the correct format. Although the issuing of the addendum resolves the issue of BVPP compliance the lack of performance information makes the plan less valuable as a means of reporting and comparing performance against other forces.

## Performance Indicators

Our detailed testing of the authority's performance information systems, as part of the BVPP audit, did not identify any significant concerns over supporting evidence for producing the indicators. However, it should be noted that our work on data quality does continue to raise concerns over the accuracy of the indicators relating to violent crimes, domestic burglaries, domestic violence and racial incidents.

## Information management

As part of this year's audit, we carried out an overview of the constabulary's progress in developing and implementing its approach to information management.

The constabulary has, in the past, struggled to produce a workable strategy for information management, systems and technology, i.e. one that drives action rather than being merely theoretical.

The constabulary has recognised that clearer direction is needed over its use of information and the underlying systems and technology. As a first stage, the constabulary started documenting its approach to information management, making use of the findings of last year's best value review of "Information management and IT", and using good practice guidelines from the national information systems strategy for the police service (ISS4PS).

The main conclusions and recommendations from our overview were:

- the strategy needs to show explicit connections between the constabulary's planned investment in information and how this investment will contribute to the constabulary's overall objectives;
- the documented strategy should be structured in a way that allows action plans to be readily linked to it;
- the role of information services needs to shift from "providing information" to putting the emphasis on "providing tools and training for analysing information";
- identifying some "quick wins" for development and avoid a lengthy analysis stage which would perpetuate the difficulties of moving from theory to action;
- rigorous business cases for developments are needed, to allow managers and the police authority to identify how information developments should be prioritised against other demands for limited funds.

In September 2004 the constabulary appointed a new director of information technology and information management. On 29 November 2004 the new director presented a progress report on implementation of the best value recommendations to the audit and performance

committee. This showed that good progress had been made on putting in place new structures, with the right level of expertise, and raising the profile of information management and technology in the constabulary. However, work on developing strategies for information management, information systems and information technology has made less progress and a revised approach has been agreed by the constabulary best value team to ensure progress.

## Other work

### Grant Claims

Over recent years the number of claims requiring audit certification has grown and audit fees have risen in line with this growth. In accordance with Strategic Regulation, the Audit Commission has adopted a more risk-based approach to the certification of grant claims. With effect from 2003/04 the smaller claims have not been subject to audit (below £50,000) or have received a lighter touch. The approach to larger claims (over £100,000) has been determined by risk and the adequacy of the authority's control environment.

The authority's arrangements for managing and quality assuring grant claims submitted for audit remains good and we have signed and submitted all the grant claims applicable to 2003/04.

### National Fraud Initiative

The authority took part in the Audit Commission's national fraud initiative (NFI) 2002. The NFI, which is undertaken every two years, brings together data from local authorities, NHS bodies, government departments and other agencies, to detect a wide range of frauds against the public sector.

Last year we concluded that the authority, through the constabulary, had responded positively to NFI 2002 and that arrangements had been put in place to ensure that the data matches were investigated. Nationally, total savings from the NFI 2002 exercise exceeded

£83m although none were identified at this authority or within the constabulary.

The Commission are repeating the exercise this year and we are pleased to report that the authority and constabulary are taking part in NFI 2004. As part of this the Commission will again collect payroll, pensions, housing benefits, student loan and housing rents data from authorities. Alongside the core exercise a number of pilot initiatives are being undertaken at selected sites. These are focused on risk areas that were highlighted by authorities and include payments made to privately run care homes, abuse of blue badge parking permits, serial insurance claimants and duplicate payments to suppliers. These pilot areas, if they prove effective, will be incorporated into future NFI exercises.

## Looking Forwards

### Future audit work

We have an agreed plan for 2004/05 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 2004/05 accounts, will be reported in next year's annual letter.

We have sought to ensure, wherever possible, that our work relates to the key priorities of the authority and the constabulary. We will continue with this approach when planning our programme of work for 2005/06. We will seek to reconsider, with you, your key priorities and your own analysis, and develop an agreed programme by 31 March 2005. We will continue to work with HMIC to develop a co-ordinated approach to regulation.

### Revision to the Code of Audit Practice

The Audit Commission has consulted on a revised Code of Audit Practice for application to the audit of the 2005/06 accounts. The new Code, which will be laid before Parliament in January 2005, is designed to secure:

- a more streamlined audit, which is proportionate to risk and targeted on areas

where auditors have most to contribute to improvement;

- a stronger emphasis on value for money, focusing on bodies' corporate performance and financial management arrangements (rather than individual services and functions); and
- clearer reporting of the results of audits.

Further details will be provided in the Audit Plan 2005/06.

## Closing remarks

This letter has been discussed and agreed with the deputy chief constable, clerk to the authority, the treasurer and the director of finance. A copy of the letter will be presented at the meeting of the police authority on 19 January 2005.

The authority and constabulary have 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 assistance and co-operation.

### Availability of this letter

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.

**Fiona Daley**  
**District Auditor**

**December 2004**

## Status of our reports to the authority

Our annual audit letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Annual audit letters are prepared by appointed auditors and addressed to members and officers. They are prepared for the sole use of the audited body, and no responsibility is taken by the Audit Commission or its appointed auditors to any member or officer in their individual capacity, or to any third party.

## Audit reports issued

|   |                |
|---|----------------|
| Audit plan 2004/05  | May 2004       |
| Interim audit report  | August 2004    |
| Risk Management report  | August 2004    |
| Information management report                                       | September 2004 |
| Activity Based Costing report                                       | November 2004  |
| Cumbria safer communities report – reducing the impact of drugs use | November 2004  |
| SAS 610 letter  | November 2004  |
| Final accounts memo and audit opinion                               | November 2004  |
| Crime data quality review report – review of crime recording 2004   | December 2004  |
| BVPP audit opinion  | December 2004  |
| Annual Audit Letter   | December 2004  |

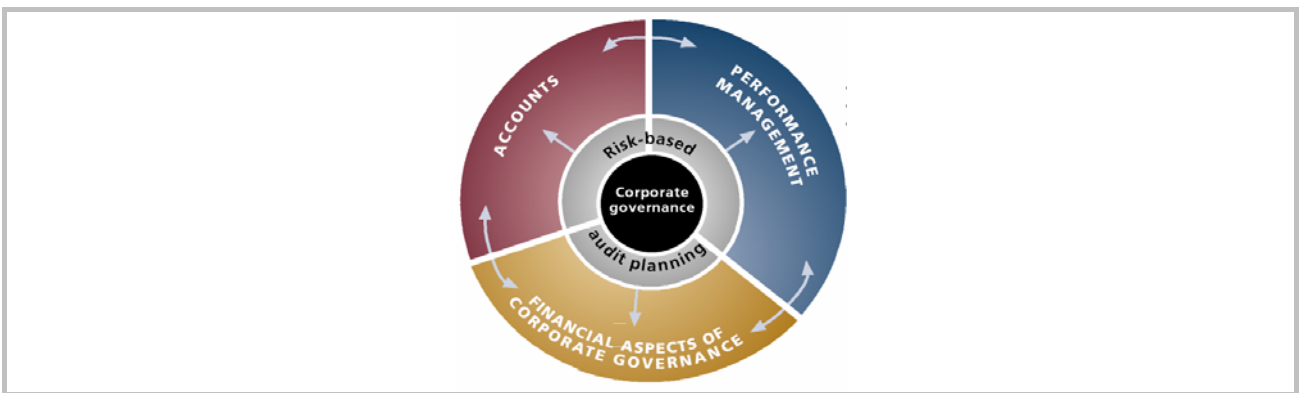
## Scope of audit

### Audit

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 your significant financial and operational risks that are relevant to our audit responsibilities.

Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Exhibit 1.

#### The three main elements of our audit objectives



#### Accounts

- Opinion.

#### Financial aspects of corporate governance

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

#### Performance management

- Use of resources.
- Performance information.
- Best Value Performance Plan.

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.

## Audit fee

## Audit fee update

| Audit area                                   | Plan<br>2003/04 | Actual<br>2003/04 |
|--|-----------------|-------------------|
| Accounts                                     | 18,000          | 18,000            |
| Financial aspects of corporate governance    | 11,500          | 11,500            |
| Performance                                  | 8,000           | 8,000             |
| <b>TOTAL CODE OF AUDIT PRACTICE FEE</b>      | <b>37,500</b>   | <b>37,500</b>     |
|  |                 |                   |
| Grant Claim certification                    | 4,000           | 2,300             |
| Additional Voluntary work (under Section 35) | 0               | 0                 |