

Annual Governance Report

Cumbria Police Authority

Audit 2009/10

Date **September 2010**

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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
-

Ladies and Gentlemen

2009/10 Annual Governance Report

I am pleased to present the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Treasurer and Director of Finance and Resources on 7 September 2010 and updated it as issues have been resolved.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before the financial statements are re-authorised for issue by the Treasurer (pages 7 to 11);
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified (which management has declined to amend) or set out the reasons for not amending the errors; (Appendix 3);
- approve the letter of representation on behalf of the Authority before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

Yours faithfully

Ms Gina Martlew

Appointed Auditor

Date: 7 September 2010

Key messages

This report summarises the findings from the 2009/10 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.

Financial statements	Results	Page
Unqualified audit opinion	Yes	7
Financial statements free from material error	Yes	7
Adequate internal control environment	Yes	8
Value for money	Results	Page
Adequate arrangements to secure value for money	Yes	12

Audit opinion

- 1 My audit is substantially complete. Subject to the satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements by 30 September 2010. Appendix 1 contains a copy of my draft audit report.

Financial statements

- 2 The 2009/10 draft financial statements did not include any material errors but the overall number of errors within the financial statements has increased from the previous year. Quality assurance arrangements need to be improved to minimise the overall number of errors in the financial statements in future years.

Value for money

- 3 I intend to issue an unqualified conclusion stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my draft auditor's report.

Audit fees

- 4 Since the audit fee was set for 2009/10 I have had to undertake additional work on International Financial Reporting Interpretations Committee (IFRIC) 12 on services concessions. Your Private Finance Initiative (PFI) scheme has come on balance sheet

Key messages

and I had to undertake work on your valuation and accounting arrangements for the PFI which are complex and material to your accounts.

- 5 In addition, although we found no material errors in the accounts, the significant errors we found were corrected and affected the primary statements and many of the Notes and the Treasurer's introduction (see Appendix 2). All of these amendments had to be made by your officers and checked by my staff.
- 6 My estimate of the additional fee for my work on the PFI scheme and the correction of the large number of errors in the accounts is £10,000 plus VAT.

Independence

- 7 I can confirm that there were no relationships giving rise to a threat to independence, objectivity and integrity.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It 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.

8 I ask the Governance Committee to:

- consider the matters raised in the report before the financial statements are re-authorised for issue by the Treasurer (pages 7 to 11);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified (that management has declined to amend) or set out the reasons for not amending the errors (Appendix 3);
- approve the letter of representation on behalf of the Authority before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

Financial statements

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 on the financial statements and the annual governance statement prior to the Treasurer re-authorising the financial statements for issue.

Opinion on the financial statements

- 9 Subject to satisfactory clearance of 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 audit report.
-

Errors in the financial statements

- 10 The 2009/10 financial statements authorised for issue by the Treasurer on 25 June 2010 did not include any material errors but the overall number of errors within the financial statements has increased from the previous year. 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.
- 11 I am now required to report to you all non-trivial errors over £23,240. This represents 1 per cent of materiality, which is set at 2 per cent of the Authority's gross revenue expenditure for 2009/10.
- 12 Although the accounts did not contain any material errors, I identified a number of errors in the financial statements, other than those of a trivial nature. I have reported these to management. Management has agreed to amend the accounts for most of these errors, summarised in Appendix 2. Those errors which have not been changed by management are outlined in Appendix 3. A summary of the main amendments is shown below.
- **Statement of Movement on General Fund Balance (SMGFB):** within the note of reconciling items for the SMGFB there was an error in the disclosed movement on earmarked reserves. The net transfer to earmarked reserves of £895,000 was incorrectly shown as a contribution from reserves of £896,000, an overall error of £1.791m. Secondly, the contribution of £1.629m from capital reserves was understated by £1.59m and only showed £39,000. As a result an additional line was required within the SMGFB, which was a balancing figure of £201,000. This meant that rather than there being an increase in the GF balance of £74,000 in fact GF balances were reduced by £127,000 in the year. The Outturn report for the year showed that GF balances had increased by £74,000 when in fact the GF has

reduced by £127,000. This error and the incorrect calculation of reserve movements have impacted on a number of notes to the accounts;

- **Cashflow Statement:** £2m of long term investments, re-classified as short term investments as they became within a year of maturity, were incorrectly shown in the Cashflow Statement as a negative purchase of long term investments rather than a non cash movement on short term deposits (liquid resources). A number of changes were made to the notes to the Cashflow including clearly identifying non cash transactions and combining some of the notes;
- **Note 27 Financial Instruments:** a number of amendments were required to note 27 on financial instruments. These were as a result on not including the Private Finance Initiative (PFI) liability and because of a problem in the extraction of the correct figures from the working papers into the accounts;
- **Statement of Recommended Practice (SORP) Compliance:** additional disclosures were required to ensure that the disclosures in the financial statements complied with the requirements of the SORP. For 2010/11 the SORP is being replaced by the International Financial Reporting Standards (IFRS) based Code of Practice on Local Authority Accounting (the Code).

Recommendation

R1 Improve the quality assurance arrangements for the financial statements so as to minimise the overall number of errors in future years.

R2 Ensure that the 2010/11 financial statements are fully compliant with the new International Financial Reporting Standards (IFRS) based Code of Practice on Local Authority Accounting (the Code).

Internal control environment

13 As part of my normal audit processes I consider the key controls operating within the Authority's financial systems and any significant issues identified by Internal Audit. There are no issues I wish to bring to your attention in this area.

Key areas of judgement and audit risk

14 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Table 1 Key areas of judgement and audit risk

Issue	Finding
<p>IFRIC12 applied to the statements for the first time in 2009/10. It relates to service concessions including PFI. The Authority has a PFI scheme for Workington BCU. There are a number of risks associated with this:</p> <ul style="list-style-type: none">• Consideration of whether the PFI scheme should be on or off balance sheet;• Valuation and accounting treatment is complex and potential for material misstatement due to value of amounts involved.	<p>The changes to accounting requirements as a result of IFRIC 12 the brought forward balances, the transactions in the year all required additional audit work to ensure they were correctly disclosed</p> <p>I have confirmed that the PFI scheme meets the two tests of control and is therefore correctly included on balance sheet.</p> <p>I am satisfied with the valuation of the PFI asset on the balance sheet and the accounting entries. I will discuss further the Authority's treatment of lifecycle costs with officers in 2010/11.</p>
<p>The challenging economic climate may affect the values of the Authority's assets.</p>	<p>I am still finalising my work in this area.</p>
<p>The Authority is required to produce statements that comply with professional standards. This includes compliance with the Statement of Recommended Practice (SORP).</p>	<p>I identified several additional disclosures were required to ensure that the financial statements were SORP compliant.</p>

Accounting practice and financial reporting

15 I consider the non-numeric content of your financial reporting. Table 2 contains the issues I want to raise with you.

Table 2

Issue	Finding
<p>Note 5 on Employee remuneration incorrectly excluded benefits in kind and for some employees incorrectly included amounts relating to pay in previous employment. In addition it did not reconcile to Note 6 which shows the newly required disclosure in respect of senior employees' costs.</p>	<p>Note 5 was amended to correct the banding analysis so that a total of 19 staff are now included in the note (previously 18). Highest banding now £140,000 to £144,999, whereas previously it was £115,000 to £119,999. Comparative note for 2008/09 also amended.</p>
<p>Note 6 requires disclosure of the remuneration of any person having responsibility for the management of the relevant body, to the extent that the person has power to direct or control the major activities of the body, in particular activities involving the expenditure of money, whether solely or collectively with other persons.</p>	<p>The Note includes the Chief Executive and Treasurer of the Police Authority. For the Constabulary it includes the Chief Constable, Deputy Chief Constable and Assistant Chief Constables. It does not include any civilian senior staff working for the Constabulary.</p>
<p>Errors in the formula for calculating depreciation in the asset register.</p>	<p>The Authority holds its asset registers on Excel spreadsheets. I identified an error in the formula used to calculate depreciation in the Authority's IT asset register. This led to depreciation on these IT assets being overstated over a number of years. In 2009/10 the error was an overstatement of £113,000 in both the I&E and SMGFB with no consequence for the closing GF balance. The introduction of IFRS compliant component accounting will increase the complexity of asset accounting. The Authority may wish to consider introducing a new asset register software package in the future as a way of meeting these requirements and minimising the risk of formula errors.</p>
<p>Vehicles that have been disposed of have been revalued to open market value prior to sale. However, these do not need to be revalued as vehicles, as a class of asset, are not subject to revaluations.</p>	<p>The loss on disposal of fixed assets understated by £66,000 and therefore deficit for the year in the I&E Account understated by the same amount. There is no effect on the GF balance because this entry in the I&E is removed in the SMGFB</p>

Financial statements

Recommendation

R3 Consider the benefits of introduction of an asset register software package to meet new IFRS component accounting requirements and minimise the risk of formula errors.

Letter of representation

16 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation.

Value for money

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

Value for money conclusion

- 17** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 5.
- 18** I intend to issue an unqualified conclusion stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft report.
- 19** I have outlined below the summary of my findings on the three areas shown in Appendix 5.
- 20** The Audit Commission and the Association of Police Authorities have recently developed a pack of tools to help improve value for money for police authorities and police forces. These can be found at <http://www.audit-commission.gov.uk/nationalstudies/communitysafety/policevfm/Pages/default.aspx>

Managing finances

- 21** The Medium Term Financial Strategy (MTFS) is updated annually as are other key plans. The most recent version of the MTFS highlights the current issues in respect of public sector settlements and includes several different scenarios considering the differences between pay increases and grant settlements. The budget report produced annually as part of the budget setting process includes four year forecasts of revenue expenditure. Detailed consultation has been undertaken as part of the budget setting process. The Authority has historically performed within budget, efficiency savings are achieved and reserves have been maintained within levels agreed by the policy.
- 22** There is a capital programme in place which is linked to priorities. However, quarterly capital programme monitoring reports do not report what the budget is for capital expenditure in a particular year. These reports focus on projected expenditure in a given year and the variance for the life time of the scheme against total budget rather than an expectation of what should be delivered in year. It is therefore difficult to assess whether the delivery of the capital programme is meeting expectations each year.
- 23** 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. All significant investment decisions are subject to option appraisal and risk evaluation. Overspends are managed while considering the impact on performance. Budgets are delegated at an appropriate level and devolved areas are supported by finance staff.

Value for money

- 24** The accounts prepared for 2009/10 contained a number of errors. It is clear that the Authority was working to a tight timetable and had to implement new and complex accounting requirements on PFI and Council Tax. However, greater quality assurance of the accounts may well have identified and amended several of the errors prior to authorisation of the accounts by the Treasurer.
- 25** Suggested areas for improvement:
- ensuring that the quarterly capital monitoring reports states the budget for the year so that delivery of the capital programme can be clearly assessed and challenged;
 - ensuring that sufficient time is available within the accounts closedown process for a robust quality assurance of the accounts prior to them being authorised for issue by the Treasurer.

Governing the business

- 26** 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 e.g. more effective and integrated ICT systems. There is also evidence of better outcomes for citizens e.g. public confidence. The force has secured some efficiencies through collaboration and regional procurement arrangements.
- 27** The Constabulary and Authority are committed to ensuring that reported data is accurate and complete. Recent internal audit results show an improvement in compliance with national standards, now graded as “good” for NCRS and “fair” for NSIR. Arrangements to ensure data security continue to develop and the Constabulary is now 83 per cent compliant with the ACPO/ACPOS Information Systems Community Security Policy. Performance monitoring and management arrangements are robust and are helping to deliver better outcomes across most areas of the Policing Plan.
- 28** Training offered to members is in response to identified training needs. Training on the code of conduct has been well attended by members. Members representing the Authority on key partnerships are asked to complete a form setting out the main conclusions of any meetings which is then reported to the relevant committee helping ensure governance of partnerships.
- 29** Risk management arrangements are sound although the Annual Governance Statement clearly identifies that the Force needs to complete an assessment of strategic partnership risks. This will be supported by risk registers for strategic partnerships and a comprehensive framework for partnership registration and management. The Authority took part in NFI no instances of fraud or corruption found. The Governance committee undertakes the function of an audit committee and is effective in its role. Internal audit meets the CIPFA standards.
- 30** Suggested areas for improvement:
- Ensuring the Constabulary completes its assessment of strategic partnership risks and introduces risk registers for strategic partnerships and a comprehensive framework for partnership registration and management.

Managing resources

- 31** The Constabulary has set out its commitment to improving sustainability in an Environmental Policy Statement and is developing a strategy and action plans. It has established a baseline for its CO2 emissions and has identified the plant and buildings that produce the most carbon. Departmental heads and estates staff have received sustainability awareness training, and individuals throughout the organisation have volunteered as 'Green Champions'. The Force has registered under the Carbon Reduction Commitment and is developing plans to meet this commitment. Sustainability features as an objective of the Force's procurement strategy and there is evidence of this being applied in practice. Sustainability impact assessments have not yet been undertaken on all major projects and programmes but have been used to good effect in specific instances, most notably the development of the new Carlisle BCU HQ. This building meets BREEAM excellent standards and incorporates high percentages of recycled materials and solar pre-heating of hot water.
- 32** 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. However, it is too soon to measure or report on progress in most areas of the strategy although there is evidence of outcomes in some areas, for example, reduced CO2 emissions from the vehicle fleet of over 10 per cent since 2006 through downsizing and switching to diesel vehicles. A broad array of sustainability initiatives are underway with planned future initiatives include implementation of a Green Travel Plan, incorporation of eco-driving techniques into driver training and extending sharing of premises with partner organisations. The Constabulary is working with other agencies on the Cumbria Strategic Partnership to deliver a Climate Change Strategy.
- 33** Suggested areas for improvement:
- Undertake sustainability impact assessments on all major projects and programmes;
 - Monitor and report progress against the Environmental Strategy.

Glossary

Annual governance statement

- 34** 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.
- 35** It comprises the systems and processes, and 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.
- 36** The annual governance statement is a public report by the 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 closure certificate

- 37** 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 certificate.
-

Audit opinion

- 38** 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.
-

Unqualified

- 39** The auditor does not have any reservations.
-

Value for money conclusion

- 40** 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.
-

Appendix 1 – Independent Auditor’s report to Members of Cumbria Police Authority

Independent Auditor’s report to the Members of Cumbria Police Authority

Opinion on the accounting statements

I have audited the accounting statements, the police pension fund accounting statements and related notes of Cumbria Police Authority for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Balance Sheet, Statement of Total Recognised Gains and Losses, 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. The accounting statements and police pension fund accounting statements have been prepared under the accounting policies set out within them.

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 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Treasurer and Auditor

The Treasurer’s responsibilities for preparing the accounting statements, including the police pension fund accounting statements, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements, the police pension fund accounting statements and related notes give a true and fair view, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of:

- the financial position of the Authority and its income and expenditure for the year; and

Appendix 1 – Independent Auditor’s report to Members of Cumbria Police Authority

- the financial transactions of its police pension fund during the year and the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA / SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA / SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements, the police pension fund accounting statements and related notes and consider whether it is consistent with the audited accounting statements, the police pension fund accounting statements and related notes. This other information comprises the Explanatory Foreword and the Introduction by the Treasurer. I am not required to consider, nor have I considered, information regarding future projections included within the Introduction by the Treasurer and in Note 7.b. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements, the police pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements, the police pension fund accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements, the police pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements, the police pension fund accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements, the police pension fund accounting statements and related notes.

Opinion

In my opinion:

- The accounting statements and related notes give a true and fair view, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended; and
- The police pension fund accounting statements give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the police pension fund during the year ended 31 March 2010 and the amount and disposition of the fund’s assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Conclusion on 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 regularly to review the adequacy and effectiveness of these arrangements.

Auditor’s Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority 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 in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for police authorities published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. 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.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for police authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, Cumbria Police Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

Appendix 1 – Independent Auditor’s report to Members of Cumbria Police Authority

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Ms G F Martlew
Appointed Auditor

September 2010

Audit Commission
2nd Floor Aspinall House
Aspinall Close
Middlebrook
Bolton
BL6 6QQ

Appendix 2 – Amendments to the draft accounts

I identified the following misstatements during my audit and managers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Table 3

Description of error	Accounts affected	Value of error
<p>Within the Cashflow Statement is an amount of £2m for purchase of long term investments. However, no long term investments have been purchased in 2009/10. During 2009/10 long term investments have actually reduced by £2m but only because this amount is now less than a year to maturity and is now shown within short term investments in the balance sheet. This is simply a non cash movement.</p>	<p>Within the Cashflow Statement:</p> <ul style="list-style-type: none"> • Purchase of long term investments should be nil; • Net increase / (Decrease) in short term deposits should be (£3m) 	<p>£2m</p>
<p>There was an additional line in the SMGFB which was a balancing figure of £201,000 caused by an incorrect calculation of reserve movements in the Note of Reconciling items for the SMGFB.</p>	<p>Amendments required to the SMGFB:</p> <ul style="list-style-type: none"> • Net amount required to be (credited) / debited to the General Fund balance should be (£36.042m); • Contributions from General Fund should be £127,000. <p>The line for Drawdown from the General Fund should be deleted.</p>	<p>£201,000</p>

Appendix 2 – Amendments to the draft accounts

Description of error	Accounts affected	Value of error
<p>Within the Note of Reconciling items for the SMGFB the calculation of reserve movements was incorrect. The net movement on earmarked reserves should be a transfer to earmarked reserves (should be £895,000 rather than -£896,000, an error of £1.791m) and the net movement Capital Reserve should be a transfer from (£1.629m, an error of £1.59m). When working the additions through the contributions from General Fund should be £127,000.</p> <p>These errors also affected Notes 2 and 2a</p>	<p>Amendments required to the reconciling items for the SMGFB:</p> <ul style="list-style-type: none"> • Transfer to earmarked reserves £895,000; • Transfer from Capital Reserves (£1.629m); • Sub total should be (£734,000); • Net amount required to be (credited) / debited to the General Fund balance (£36.042m). 	<p>£1.791m (Earmarked reserves) £1.59m (Capital reserve)</p>
<p>Pension interest cost and expected return on pension assets shown as the net position of £40.978m but in the gross expenditure column of the I&E Account. Should be shown as gross expenditure and gross income.</p>	<p>Gross expenditure and Gross income on pension interest cost and expected return on pension assets are both understated by £2.502m in the I&E Account. No impact on the deficit for the year.</p>	<p>£2.502m (net impact nil)</p>
<p>The wording introducing the SMGFB did not make it clear what the impact was on Council tax.</p>	<p>Note updated to provide additional required information.</p>	<p>N/A</p>
<p>Introduction by the Treasurer includes a summary 'Police Revenue Account'. This originally showed a contribution to revenue balances of £74,000 but the correct figure is a contribution from General Fund balance of £127,000. This was a result of the wrong figures being shown for contributions to / (from) reserves and capital reserve. The note on 'Police Authority General Fund' and the note on the 'Authority's Management Accounts' also required amendment.</p>	<p>Note updated to correct the figure.</p>	<p>N/A</p>

Appendix 2 – Amendments to the draft accounts

Description of error	Accounts affected	Value of error
Introduction by the Treasurer did not include a summary of sources of finance to fund capital expenditure or a brief explanation of the significance of the pension liabilities.	Note updated to provide additional required information.	N/A
Introduction by the Treasurer shows pie charts for income and expenditure and these have been amended to show the total position in respect of Pension interest costs and expected return on pension assets as shown in the financial statements.	Amendment required to ensure the pie charts matched the disclosures in the accounts	N/A
Accounting policies amended: <ul style="list-style-type: none"> ● Note 1 - updated to disclose the accounting convention used within the accounts; ● Notes 2 and 2.3 - updated to disclose correct address of valuer. 	Note updated to provide additional required information.	N/A
Note 2 on Subjective Analysis of Net Operating Expenditure showed only the net position on Pension interest costs and expected return on pension assets, the incorrect movement on reserves and showed a surplus for the year of £74,000	Gross expenditure and Gross income on pension interest cost and expected return on pension assets are understated by £2.502m in the note. Reserve movement and contribution to capital understated by £201,000 and the Surplus for the year is actually a £127,000 deficit for the year.	N/A
Note 2a on Reconciliation of Subjective Analysis to that reported in the year incorrectly showed Reserve movement - Capital as (£39,000) and Reserve movement - Earmarked as (£918,000) in the in year reporting.	Within note 2a Earmarked reserves movement understated by £1.791m and Capital reserve movement understated by £1.590m.	N/A

Appendix 2 – Amendments to the draft accounts

Description of error	Accounts affected	Value of error
Note 5 on Employee remuneration incorrectly excluded benefits in kind and for some employees incorrectly included amounts relating to pay in previous employment.	Note updated to correct the banding analysis so that a total of 19 staff are now included in the note (previously 18). Highest banding now £140,000 to £144,999, whereas previously it was £115,000 to £119,999. Comparative note for 2008/09 also amended.	N/A
Note 6 on Disclosure of Remuneration of Senior employees amended for the split between salary and expense allowances (net impact nil) for Chief Executive and Assistant Chief Constable (B) to link better with the banding analysis in note 5.	Note updated to correct the split of the figures.	N/A
Note 13 on Related Party Transactions did not include details of transactions with the: <ul style="list-style-type: none"> ● Cumbria Local Government Pension Fund; ● Government; ● Council tax income received from district councils. 	Note updated to provide additional required information.	N/A
Note 18 on capital commitments incorrectly stated that contractual commitments of £5.923m existed. The actual figure for contractual commitments at 31 March 2010 is £4.492m. The note has been amended to show the schemes involved.	Note updated to show correct amount and provide additional required information.	N/A
Note 27a on Financial assets and liabilities at amortised costs incorrectly disclosed current loans and receivables as £17.77m even though the working paper showed the correct figure of £19.625m	Note updated to correct the figure.	N/A

Appendix 2 – Amendments to the draft accounts

Description of error	Accounts affected	Value of error
Note 27a on Financial assets and liabilities at amortised costs did not include the financial liability relating to the PFI scheme of £5.562m for 2009/10 and £5.608m for 2008/09.	Note updated to correct the figure.	N/A
Note 27b on Gains and losses on financial instruments incorrectly disclosed interest costs as £25,000 even though the working paper showed the correct figure of £723,000. Errors were also noted in the 2008/09 comparators.	Note updated to correct the figure.	N/A
Note 27c on Fair value of assets and liabilities carried at amortised costs incorrectly disclosed the carrying value and fair value of loans and receivables for 2009/10 as £19.770m even though the working paper showed the correct figure of £21.625m. It also incorrectly disclosed the fair value for 2008/09 as £21.907m instead of £22.906m.	Note updated to correct the figure.	N/A
Note 27c on Fair value of assets and liabilities carried at amortised costs did not include the financial liability relating to the PFI scheme of £5.562m for 2009/10 and £5.608m for 2008/09.	Note updated to correct the figure.	N/A
<p>Note 29 on Capital Adjustment Account showed incorrect comparator figures for 2008/09 for:</p> <ul style="list-style-type: none"> • Revaluations (charged to I&E Account) shown as (£301,000) but it should have been (£375,000); • Capital financing adjustment for depreciation shown as (£5.041m) but should have been (£4.967m). 	Note updated to correct the figure.	N/A

Appendix 2 – Amendments to the draft accounts

Description of error	Accounts affected	Value of error
Note 33 on General Fund amended to show correct position for the year of contribution from the General Fund balance of £127,000.	Note updated to correct the figure.	N/A
Note 36 on Post balance sheet events updated to disclose the Government's announcement that pension increases to be based on CPI rather than RPI.	Disclosure note updated to provide additional required information.	N/A
Note 38a on Reconciliation of the deficit on the I&E Account to revenue cash flows was incorrectly being balanced to a figure of £4.121m instead of £4.301m i.e. the wrong line in the Cashflow statement.	Note updated to agree to the correct figure.	N/A
Notes 38b, 38c and 38e have been combined to produce two new notes to the Cashflow statement and have been re-written to clearly identify the £2m non cash transaction.	Notes to Cashflow combined to give two new notes and clearly identify non cash transaction.	N/A
Note 39 added to disclose precepts / income from Council Tax from the six district council.	Additional disclosure note included in support of related party transaction disclosures.	N/A

Appendix 3 – Unadjusted misstatements in the accounts

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. If you decide not to amend, please tell us why in the representation letter. If you believe the affect 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.

Table 4

Description of error	Accounts affected	Value of error
<p>A number of IT assets have been depreciated at a quicker rate than planned for the last four years due to an error in the formula in the asset register (spreadsheet).</p>	<p>Depreciation charge for 2009/10 in I&E Account overstated by £113,000 and therefore deficit for the year overstated by £113,000.</p> <p>Cumulative error means that at 31 March 2010 fixed assets (Information Technology) were understated by £478,000 and the Capital Adjustment Account understated by £478,000.</p>	<p>£478,000</p>
<p>Vehicles that have been disposed of have been revalued to open market value prior to sale. However, these do not need to be revalued as vehicles as a class of asset are not subject to revaluations.</p>	<p>Loss on disposal of fixed assets understated by £66,000 and therefore deficit for the year in the I&E Account understated by the same amount.</p> <p>There is no effect on the GF balance because this entry in the I&E is removed in the SMGFB</p>	<p>£66,000</p>

Appendix 4 – Draft letter of representation

Gina Martlew
Appointed Auditor
Audit Commission
Aspinall Close
Middlebrook
Horwich
Bolton
BL6 6QQ

Dear Ms Martlew

Cumbria Police Authority - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Cumbria Police Authority, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2010. All representations cover the Authority's accounts and the Police Pension Fund accounts included within the financial statements.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which gives a true and fair view of the financial position and financial performance of the Authority and for making accurate representations to you.

Corrected misstatements

I confirm that with the exception of the two uncorrected misstatements noted below we have corrected all other identified misstatements in the financial statements and discussed them with those charged with governance within the Authority.

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate (see attached schedule). These misstatements have been discussed with those

charged with governance within the Authority and the reasons for not correcting these items are as follows;

- As these errors relate to technical / capital accounting entries, neither error has an impact on the overall general fund balance and as such on the amount required to be funded from council tax. The entries made in the income and expenditure (I&E) account are subsequently reversed out in the Statement of Movement on the General Fund Balance (SMGFB).
- Even when combined, the value of the errors amounts to only £179k for the I&E account for 2009-10 which represents 0.15% of the Authority's gross revenue expenditure for 2009-10 and as such is significantly below the materiality limit of 2% set by the Audit Commission.
- The first error in relation to depreciation relates to items of equipment that will be fully depreciated and therefore written out of the balance sheet during 2010-11. It is simply proposed to correct the item during 2010-11.
- The second error in relation to vehicle disposals has no cumulative impact and as outlined above has no impact of the overall general fund balance. Procedures will be amended in 2010-11 to ensure the error is not repeated.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Authority have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Authority and Committee meetings, have been made available to you.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and

Appendix 4 – Draft letter of representation

- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
- Law, regulations, contractual arrangements and codes of practice
- There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Authority.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For financial liabilities and pension fund asset and liability assumption, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- subsequent events which [require / do not require] adjustment to the fair value measurement.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. We have no other lines of credit arrangements.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Post balance sheet events

In his budget statement on 22 June, the Chancellor announced that the government would start to increase public service pensions in line with the consumer price index (CPI) rather than the retail price index (RPI), which has been the practice in the past. As a result, future pension increases under the Cumbria Local Government Pension Scheme are expected to be slightly lower, on average, than would have been the case if this change had not been made. This change is estimated to reduce the FRS17 benefit obligations by between 5% and 8% for most employers. The precise financial effect will be taken into account in the FRS17 figures for the financial year ending 31 March 2011.

Since the date of approval of the financial statements by the Authority, no other additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

The Authority has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Signed on behalf of Cumbria Police Authority.

I confirm that the this letter has been discussed and agreed by the Authority's Governance Committee on 14 September 2010

Signed

Name: Douglas Thomas

Position: Treasurer

Date: XX September 2010

Appendix 5 – Value for money criteria

KLOE	Met
Managing finances	
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
Governing the business	
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
Managing resources	
Is the organisation making effective use of natural resources?	Yes

Appendix 6 – Action plan

Page no.	Recommendation	Priority Low Med High	Responsibility	Agreed	Comments	Date
Annual Governance Report 2009/10 - Recommendations						
8	R1 Improve the quality assurance arrangements for the financial statements so as to minimise the overall number of errors in future years.	High	Constabulary Director of Finance and Resources Police Authority Treasurer	Yes	Quality Assurance will be improved in future, including by increasing the level of external scrutiny.	31 March 2011
8	R2 Ensure that the 2010/11 financial statements are fully compliant with the new International Financial Reporting Standards (IFRS) based Code of Practice on Local Authority Accounting (the Code).	High	Constabulary Head of Financial Services	Yes	Members have previously received a plan, setting out the timelines and impacts of full IFRS compliance. This will be updated, regularly monitored and reported to members.	30 June 2011

Appendix 6 – Action plan

Page no.	Recommendation	Priority Low Med High	Responsibility	Agreed	Comments	Date
11	R3 Consider the benefits of introduction of an asset register software package to meet new IFRS component accounting requirements and minimise the risk of formula errors.	Med	Constabulary Budget and Accountancy Manager	Yes	An analysis of the costs, benefits and suitability of available products will be undertaken.	31 December 2010.

The Audit Commission

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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