

Budgetary Control

Humberside Police Authority

Audit 2004/2005

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Introduction

- 1 It is the responsibility of the audited body to conduct its financial affairs effectively and to put in place proper arrangements to ensure that its financial standing is soundly-based, having regard to compliance with:
 - statutory financial requirements;
 - financial targets;
 - relevant codes and guidelines;
 - the level of balances, reserves and provisions;
 - financial monitoring and reporting arrangements; and
 - the impact of planned future policies and known or foreseeable future developments on the body's financial position.
- 2 It is the auditors' duty as per the Code of Audit Practice to assess whether the audited body has put in place proper arrangements to ensure that its financial standing is soundly-based.
- 3 In carrying out this responsibility, auditors should have regard to the audited body's:
 - financial performance in the year;
 - ability to meet known statutory and other financial obligations, actual or contingent; and
 - responses to known developments, whether current or in the foreseeable future, which might have an impact on its financial standing.
- 4 One of the main components of an Authority's arrangements is robust budgetary control and monitoring arrangements.
- 5 Budgetary control is a vital management control. Working well, it enables management to be aware of the financial position of the Authority and can, therefore, rely on the reports produced from the budgetary control system to base future decisions upon. Good budgetary control arrangements deliver a range of benefits including:
 - keeping in-year spending to agreed budgets;
 - helping to identify pressures as early as possible in year to enable decisions to be made strategically;
 - giving budget holders the necessary information to manage their budgets flexibly within a documented framework of controls;
 - providing management with the assurances that variances, both positive and negative, give the full picture; and
 - enabling members to make decisions based on all the available evidence of spending patterns including the forecast year-end position.

- 6 Where good budgetary control exists, external auditors can use these controls for assurance that significant errors in the system will be identified and corrected before the errors reach the financial statements.

Background

- 7 Humberside Police Authority's budget for 2004/05 was £152 million. Its spending plans were funded by a council tax charge of £129.96 for Band D properties. The budget increased spending by 5.9 per cent from 2003/04. The increase in Band D council tax was 14.97 per cent.
- 8 Note 1 to the Authority's 2003/04 accounts showed an underspend of £20.3 million. This was mainly made up of the following:
- pay and other employment costs - £3.7 million;
 - police pensions current service cost - £8.91 million; and
 - supplies and services - £6.15 million.
- 9 The Authority also has an extensive capital programme funded largely from its own reserves. The capital programme for 2004/05 was £16.4 million (2003/04 £16.3 million). The actual expenditure shown in 2003/04 on the capital programme was £10.2 million, an underspend of £6.1 million or 37.5 per cent of the programme for the year.
- 10 In the 2003/04 financial year, the Authority received no budget monitoring reports detailing performance or the estimated year-end position between the agreement of the 2003/04 budget in March 2003, and the adoption of the financial statements for the 2003/04 financial year. Consequently, at no time during the year could members carry out their monitoring responsibilities effectively.

Audit approach

- 11 The audit approach for 2004/05 included:
- a review of Internal Audit's work on the Main Accounting and Budgetary Control systems;
 - interviews with central finance staff involved in management accounts;
 - reviews of reports issued to the Audit and Strategy Committee and the full Police Authority;
 - monitoring the estimated outturn position for both the devolved and non-delegated budgets throughout the year; and
 - a consideration of the many pressures that the Authority has had during 2004/05, including Police Standards Unit (PSU) engagement and delivery of performance improvements.

Main findings

- 12 Humberside Police Authority's budgetary control system is not yet effective.
- 13 There are improvements since our last review. Regular reports to members initially quarterly and then monthly are produced. These report the actual position of the expenditure against the profiled budget, and also an estimated outturn position.
- 14 Members have also received a report detailing the outturn position (prior to audit of the Statements of Account) of the budget (May 2005).
- 15 However, the content of these reports still does not provide members with adequate reliable information to support any decisions on future council tax levels. For example, the estimated outturn position reported during the year fluctuated significantly (see Appendix 1 - estimated outturn position). The narrative that accompanied the reports did not provide adequate explanation as to why these fluctuations occurred. Members must have confidence in the information being provided to them.
- 16 Significant variances in the outturn report from that previously reported in month 10 clearly demonstrate that significant weaknesses in the budget reporting arrangements exist (see Appendix 2 - comparison of outturn and month 10 estimates). It is clear that the information reported during the year to members was not complete. The significant variances between month 10 and the financial year-end were not due to events in months 11 and 12. It was that the monitoring reports in the year were not complete, and these were only corrected in the outturn report.
- 17 The narrative included in the budget reports received by members included the following:
 - incorrect profiling;
 - awaiting virements from other codes;
 - invoices received late; and
 - overspends caused by reduction of 0.5 per cent of budget.

- 18 While all the above may be true at any point in the budget cycle, a robust budgetary control system will:
- know about the late invoices and include an accrual in the management accounts;
 - ensure that all outstanding journals/virements are processed before the management accounts are processed;
 - correct any inappropriate profiling in-year to ensure that as accurate an estimate of outturn is produced at all times during the year; and
 - give adequate explanations of the reasons for the changes in the estimated outturn (for example – ‘The reason for the change in the estimated outturn since last report is that we have received grant approval for £x reducing overspend by £x. or the unexpected operation has meant that we have incurred the following additional expenditure of £x’) giving the reader of the report a feel as to the robustness of the information supplied.
- 19 As external auditors we should be able to rely on the budgetary control system to build up a picture of the expenditure patterns that the Authority is experiencing.
- 20 This pattern can be compared against the knowledge we have of the Authority in terms of its activities as a whole and the pressures it faces in delivering performance.
- 21 Also we use the predicted outturn position as a starting point for planning our work on the financial statements that leads to the audit opinion. Where good budgetary control exists we can use the later months estimated outturn (say month 9 or 10) as the baseline for our analytical testing.
- 22 We then compare this to the outturn report and the statement of accounts approved by members. When these high-level reports are comparable, or explanations are received as what has changed in the closing period, we can receive assurance, for our opinion, that the budgetary control system will identify and correct any significant errors.
- 23 However, at present the analytical review of the changes in the outturn since the estimate was done at month 10 (see Table 1) shows a significant variance in the majority of the budget lines. Also as stated earlier it is unlikely that all of these variances were created in the period since month 10.
- 24 Due to the lack of assurance we can gain from the Authority's budgetary reporting arrangements we will need to carry out a significant amount of audit work to gain the necessary assurance that the amounts included in the statements are accurate. This extra work increases the audit fee to the Authority.

The way forward

- 25 The following recommendations are required to ensure that robust budgetary control arrangements are in place.

Recommendations
<i>R1 Ensure that all budget lines are reported regularly in the monitoring reports to the Strategy Management Team meetings and then to members.</i>
<i>R2 Update the standing orders and financial regulations to include revenue expenditure variance reporting levels.</i>
<i>R3 Ensure that the monitoring reports to the Strategy Management Team meetings and members include:</i> <ul style="list-style-type: none"><i>• all variances over these levels are reported within the monitoring reports;</i><i>• explanations given as to the reasons for the variances and more importantly what has changed since last reported; and</i><i>• details of actions implemented to minimise variances.</i>
<i>R4 Ensure that the expenditure profiles included in the budget are updated to represent an accurate profile of spend.</i>
<i>R5 Ensure that virements are actioned in the base budget to ensure that brought forward budgets represent as near as possible the profile of the previous years' expenditure.</i>

Appendix 1 – Estimated Outturn Reported to Members

Table 1 Estimated outturn position

The table below summarises the position of the estimated outturn of the Authority that has been reported to members during the year.

Budget types	Period 1	Period 1 - 6	Period 1 - 7	Period 1 - 8	Period 1 - 9	Period 1 - 10	Estimated outturn
Devolved budgets	(539)	(886)	(889)	(616)	(131)	12	1,009
Commitments c/fwd into 2005/06							(720)
Protected budgets	1,648	(260)	713	783	1,186	1,041	6,778
Commitments c/fwd into 2005/06							(5,533)
Projected (overspend)/underspend	1, 109	(1,146)	(176)	167	1,054	1,054	1,534

Source: Reports to members (£000's).

Appendix 2 – Outturn Report v Month 10

- 26 The table below shows a simple comparison of what has been reported to members at month 10 as an estimate of the outturn and that reported as the Outturn position.

Table 2 Comparison of outturn report to month estimated outturn

Budget title	Outturn underspend/ (overspend)	Month 10 estimated underspend/ (overspend)	Variance
Devolved budgets	£1,009,614	£12,495	£997,119
Which includes:			
• crime management	£106,756	£49,125	£57,631
• operations	£430,572	£86,000	£344,572
• corporate development	£360,534	£18,500	£342,034
• professional standards	£31,094	£9,000	£22,094
• information services	£16,050	£3,100	£12,950
• support services	£280,095	£187,600	£92,495

Budget title	Outturn underspend/ (overspend)	Month 10 estimated underspend/ (overspend)	Variance
Protected budgets	£6,777,553	£1,041,280	£5,736,273
Which includes:			
• crime management	(£416,802)	(£75,720)	(£341,082)
• operations	(£102,722)	(£214,000)	£111,278
• projects	£1,024,440	Nil.	£1,024,440
• information services	£175,489	(£92,500)	£267,989
• support services	£4,545,970	£400,000	£4,145,970
• contingency	£263,574	Nil.	£263,574
• police authority secretariat budget.	£294,246	Nil.	£294,246

Source: Reports to members.

Appendix 3 – Action Plan

Page no.	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R1 Ensure that all budget lines are reported regularly in the monitoring reports to the Strategy Management Team meetings and then to members.	3	ACO (S)			
8	R2 Update the standing orders and financial regulations to include revenue expenditure variance reporting levels.	3	Director of Finance and Performance			

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	<p>R3 Ensure that the monitoring reports to the Strategy Management Team meetings and members include:</p> <ul style="list-style-type: none"> • all variances over these levels are reported within the monitoring reports; • explanations given as to the reasons for the variances and more importantly what has changed since last reported; and • details of actions implemented to minimise variances. 	3	Head of Finance			

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Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R4 Ensure that the expenditure profiles included in the budget are updated to represent an accurate profile of spend.	3	Divisional, Branch and Central Finance managers. Monitored by Central finance.			
8	R5 Ensure that virements are actioned in the base budget to ensure that brought forward budgets represent as near as possible the profile of the previous years' expenditure.	3	Divisional, Branch and Central Finance managers. Monitored by Central finance.			