

28 February 2006

Report of the Director
of Performance and
Resources

AUDIT COMMISSION - UPDATE

INTRODUCTION

1. At the meeting of the Police Authority held on 13 December 2005 consideration was given to the District Auditor's Annual Audit Letter and the Authority requested that a meeting should be held with the Audit Commission to cover a range of issues arising from the Letter and subsequent matters raised at the meeting. The purpose of this report is to provide Members with information on current issues and on discussions that have taken place within the intervening period. It gives details of reports received from the Audit Commission, on initiatives to develop the working relationship between the Commission and the Authority and examines changes to the audit and inspection regime in 2006/07, including the indicative range for external audit fees for next year, and on proposed changes in the future.

BACKGROUND

2. The District Auditor attended the meeting of the Police Authority on 13 December 2005 and presented his Annual Audit Letter. He commented on the changes that would occur in 2005/06, issues that the Authority had to work on and the need to ensure that resources are directed towards priority areas. He also referred to changes to Auditing Standards, on the need for external auditors to have a much deeper understanding of the organisations that they audit and on the consequential effect that this would have on the work of internal audit. In addition, reference was made to the activities of members in scrutinising the work of the Force, the need to review the 5 year financial forecast and the significance of efforts to address Police Standards Unit engagement through the work of the Vanguard Board. Officers challenged comments regarding the amount of monies available to support the revenue budget in 2006/07 and raised their concerns about using temporary monies to meet the cost of permanent commitments.
3. The Annual Audit Letter also commented on proposals for closer working relationships between the Audit Commission and HMIC in respect of Baseline assessments and the Use of Resources judgement similar to that applied within the Comprehensive Performance Assessment arrangements for Local Government that would be applied to police authorities in the future.
4. A series of meetings have been held with the Audit Commission's Audit Manager, secretariat staff, representatives from the Force and internal audit staff. In order to engage members more directly, regular meetings are being arranged between the District Auditor and the Chairman of the Police Authority to consider strategic issues and with the Chairman of the Audit and Strategy Committee on work plans and operational audit matters.
5. The Audit Manager has attended the Resources Workshop and is in regular contact with the Director of Performance and Resources.

ANNUAL AUDIT LETTER

6. The District Auditor responded to the comments made at the meeting on 13 December 2005 in connection with the financial standing section of the report by amending it to reflect the impact two year Local Government Finance Settlement, the financial pressure created by the recruitment of Police Community Support Officers and the continuing calls on reserves to fund the Authority's capital programme. He also made amendments regarding the use of the 5 year forecast in the budget setting process. A copy of the amended version of the Annual Audit Letter is attached at Appendix A.

BEST VALUE PERFORMANCE PLAN

7. The District Auditor has issued a clean opinion in connection with his audit of the Authority's Best Value Performance Plan published in accordance with the Local Government Act 1999. A copy of the report is attached at Appendix B.

PRIORITIES, BUDGET SETTING AND RESOURCE ALLOCATION

8. In the course of setting the budget for 2006/07 and agreeing an indicative budget for 2007/08, Members were briefed on the revisions to the external funding with changes to the method of calculation of both Police Grant and Revenue Support Grant in addition to scrutinising the 5 year financial forecast and the level of balances and reserves together with the business cases proposed by the Chief Constable. This followed an inclusive process involving local and external partners coming together with Members and the Force to determine local priorities and to set targets for the coming year for both statutory and local performance indicators. The arrangements included the use of performance data, comparison with MSF data, baseline assessments and disengagement criteria. The process involved the Home Office and the PSU and the local domain issues will be the subject of an early review by the HMIC as the Authority have volunteered to have the process examined ahead of the implementation of a formal inspection regime.

REVISIONS TO THE CODE OF AUDIT PRACTICE

9. At the meeting on 13 December 2005, the District Auditor referred to the need to address the requirements of the International Auditing Standards and that this would require changes to the approach to carrying out audit activity to ensure compliance. The standard requires auditors to have a much deeper understanding of how the business works which in turn requires greater emphasis upon documented systems and procedures.
10. A meeting was held in January 2006 where the Audit Manager outlined the requirement for key systems to be identified, documented and flow charted so that there was a clear understanding of the operating procedures within the Force and the Authority. This will enable transactions included within the accounts to be tracked from inception to balance sheet/revenue account, highlighting the control procedures in place. The audit process continues to involve an appropriate degree of audit testing to ensure compliance. The outcome of the meeting was that a matrix of systems in operation was created, key systems were identified and joint working arrangements were agreed to ensure the processes are documented within the limited amount of audit time available within the current year. This work is continuing.

2006 BASELINE ASSESSMENT AND USE OF RESOURCES

11. Information has recently been received detailing the arrangement for the Audit Commission to provide Use of Resources judgements for police authorities that will form part of the Baseline Assessment 2006. Members will be aware that the Force is currently completing a self assessment in connection with the 2006 Baseline report.
12. The Audit Commission and HMIC have undertaken a review of the areas of potential overlap in audit and inspection activity relating to the finance and resources framework included in the baseline assessments for 2004 and 2005 and the requirement on auditors to satisfy themselves that proper arrangements are in place for securing economy, efficiency and effectiveness in the use of resources and to issue an audit certificate. The review has now been completed and details of the process to be adopted in 2006/07 and timetable have now been released.
13. The Audit Commission and the HMIC have entered into an arrangement whereby the Commission has developed as part of its statutory audit, an annual Use of Resources judgement for police forces and authorities. HMIC will place reliance on this judgement to underpin its revised baseline framework, now called Managing Financial and Physical resources, that focuses on how resources are used to support front-line policing delivery. The new arrangements will be implemented this year.
14. Each authority in conjunction with their force will be asked to complete a self-assessment of their arrangements across five main areas; financial reporting, financial management, financial standing, internal controls and value for money. This self assessment will inform the HMIC baseline framework referred to above. The Audit Commission assessment is intended to complement the Baseline assessment issued by HMIC to forces on 6 January 2006 that is currently being completed. Auditors will visit each authority and force and will carry out interviews and document reviews to validate the self-assessment. An overall assessment using a grading system of one to four will then be produced and discussed with each authority and force.
15. The current timescale for implementation of the new process is that the Use of Resources self-assessments will be issued by the end of February 2006 for completion by the end of March 2006. It is anticipated that field work undertaken by the Auditors on all areas apart from financial reporting will be completed by the end of June. The financial reporting assessment will be completed following the audit of 2005/06 financial statements (i.e. by the end of September at the latest). This will enable the final results to be incorporated into the HMIC Baseline assessment that will be published in October 2006. Results for 2005/06 will be published in the Annual Audit letter. Auditors will discuss and report the scores for each area, the key areas of good practice and areas for improvement.
16. Discussions have already commenced with the Audit Manager on the process which involves the completion of Key Lines of Enquiry (KLoEs) covering each of the five main areas detailed in 14 above, designed to benchmark the activities and procedures of the Force and the Authority against pre-determined criteria to categorise levels of performance. The process mirrors that adopted within local authorities and the NHS.

2006/07 INDICATIVE AUDIT FEES

17. The Fee scales for 2006/07 were set out in a consultation paper issued to police authorities in November 2005. The proposed fees take into account the changes in International Auditing Standards, the closer working with HMIC and revised arrangements involving the Use of Resources judgement.
18. The fee guidance provides for a standard fee (£54,000) with an addition based on a percentage of gross spending in 2006/07 to give a mid-point fee scale. The actual fee costs could vary by +/- 30% depending on the assessment of audit risk associated with the authority. The Use of Resources judgement will be a key factor in the risk assessment process.
19. Based on this calculation, the mid point range for this Authority would be c £75k (the fee for 2005/06 is £74,392). The final fee will be subject to negotiation between the District Auditor and the Secretariat.

POLICE AND JUSTICE BILL

20. The Government have recently published details of the Police and Justice Bill. Part 4 of the Bill sets out provisions for a new Chief Inspector for Justice, Community Safety and Custody, abolishing existing inspectorates. However the Bill contains provisions about the inspection frameworks, co-operation and joint action with other inspectorates, specifying that police authorities will be inspected jointly by the Chief Inspector and the Audit Commission (as will inspections on crime and disorder partnerships (CDRPs)). The APA are concerned about the involvement of the Audit Commission in inspections as they see this as a specialised function and distinctly different from audit and will be seeking more detail about how the joint inspection arrangements will be carried out. It is likely that the regularity audit arrangements will remain in place and the joint approach will be in areas where the Audit Commission has experience in the inspection of corporate arrangements across a range of public sector bodies. The Bill specifies that the costs will continue to fall on the body being inspected.

RECOMMENDATIONS

21. It is recommended that:-
 - (i) The report be noted,
 - (ii) The amended Annual Audit Letter and report on the Best Value Performance Plan be received,
 - (iii) The Director of Performance and Resources be requested to continue to provide regular update report to meetings of this Committee.
 - (iv) Members note the revised arrangements involving the Use of Resources judgement that will form part of the HMIC Baseline assessment,
 - (v) The Director of Performance and Resources be requested to submit a further report on the District Auditor's audit plan for 2006/07 and the likely level of audit fees for the year.
 - (vi) Members note the proposals to amend the inspection regime for Police Authorities as part of the Police and Justice Bill and await further reports on the implications for the relationship with the Audit Commission,

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Background Papers:- File ref:-JB/IA/02/06