

AUDIT COMMISSION ANNUAL GOVERNANCE REPORT AND ANNUAL ACCOUNTS 2008/09

PURPOSE OF THE REPORT

1. The purpose of this report is to introduce and provide a copy of the District Auditor's Annual Governance Report. This Committee is required to consider the report and proposed amendments to the financial statements for 2008/089 previously approved as well as agreeing its response and proposals for the completion of an action plan in respect of the issues raised by the District Auditor identified as part of his audit work. Members are also asked to agree a proposed letter of representation.
2. This year the Governance Report also includes details of the District Auditor's Use of Resources score for 2008/09 which informs of his value for money conclusion. A separate report on the Use of Resources judgement will be issued in due course.

BACKGROUND

3. This report sets out details of the issues contained within the District Auditor's Annual Governance Report and includes details of his summary findings in relation to his audit of the Authority's final accounts for the year ending 31 March 2009. It also includes details of and the Authority's Use of Resources score for 2008/09. Last year the Police Use of Resources Evaluation (PURE) score for the Authority was reported separately and considered by this Committee at its meeting on 4 November 2008. Members are aware that the process for 2008/09 has been amended and the arrangements are considered to be a "harder test".
4. The Auditor's draft opinion on the accounts is set out in the Annual Governance Report together with the opinion on the arrangements in place within the Authority for securing economy efficiency and effectiveness in its use of resources. The latter is influenced by the wider Use of Resources scoring.
5. The Governance Report only includes those matters of governance interest in relation to the financial statements that have come to his attention during the audit. The District Auditor will provide a signed copy of his opinion on the accounts for inclusion in the final published set of financial statements.

6. The Authority is required to submit a letter of representation to the Auditor and the Committee are requested to approve this after considering the matters identified in the Governance Report. Arrangements for agreeing to the completion of the action plan also need to be agreed.
7. The Authority was notified of its Use of Resources score for 2008/09 on 14 September 2009 and details are included in the Annual Governance Report. The District Auditor has yet to provide his full report on Use of Resources. We understand from other Authorities that these reports may not be available until November. The report will of course be submitted to this next available Committee after its receipt.

INFORMATION

8. This Committee approved the Authority's financial statements at its June meeting. In doing so, Members acknowledged that they were still subject to External Audit scrutiny. The District Auditor's work is now substantially complete and he has issued his Governance Report, a full copy of which is attached at Annex A.
9. It should also be noted that the accounts have been open for inspection by the general public for a period of 20 days. No issues were raised by the public during this time.
10. The Governance Report includes details of a draft of the District Auditor's unqualified opinion on the financial statements and his conclusion in terms of his assessment of the arrangements in place within the Authority for securing economy, efficiency and effectiveness which is qualified to reflect issues identified in his Use of Resources judgement. These opinions will be confirmed and will be formally issued following consideration of the Report by this Committee and confirmation of the position in relation to the proposed changes to the statements as originally approved.

FINANCIAL STATEMENTS

11. The Auditor did not identify any material errors or weaknesses in the financial statements. However, he did identify the following specific risk and areas of judgement that require to be reported to Members:-

Issue or risk	Finding
The introduction of a new asset management system may result in fixed asset balances and fixed asset related income and expenditure being incorrectly stated within the financial statements.	Asset data was transferred accurately from the old asset management system to the new system. Balances within the financial statements which were derived from the new system free from material error or misstatement

12. In addition the issues detailed below in relation to accounting practice and financial reporting need to be considered:-

Issue or risk	Finding
Accounting for provisions is not consistent with the requirements of Financial Reporting Standard 12 (FRS12).	The insurance provision does not meet the requirements of FRS12. The balance of the provision is £700k.
The Authority has accrued items of general year end income and expenditure to the incorrect periods.	Balances of income and expenditure have been accounted for in the 2008/09 financial statements when they relate to 2009/10, and vice versa. These balances relate mostly to receipts and payments which are manually recorded. All balances identified are individually considered as trivial.
The Authority's specific year end accrual process has accrued items as 2008/09 expenditure in error.	Expenditure totalling £132,249 has been accounted for in 2008/09 when it relates to future periods.
The Authority's disclosures within the Statement of Accounts are not fully compliant with the requirements of the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008.	There were a number of instances where disclosure within the Statement of Accounts was not fully compliant with the requirements of the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008.
Recommendations	
The Authority needs to ensure that all provisions disclosed within the accounts are compliant with FRS12.	
The Authority needs to improve the processes for recording manual receipts and payments so that income and expenditure is recorded in the period to which it relates.	
The Authority needs to improve the process for identifying year end accruals so that expenditure is recorded in the period to which it relates.	
The Authority should ensure that disclosure within the Statement of Accounts each year is fully compliant with the requirements of the relevant Statement of Recommended Practice on Local Authority Accounting in the United Kingdom.	

13. An action plan in respect of the above recommendations is set out in Appendix 6 of the Governance Report and this will be required to be completed by officers on behalf of the Authority.
14. The District Auditor has also identified a small number of errors in the financial statements. These changes were largely presentational and amendments have been agreed by management as the audit has progressed. Details are set out in Appendix 2 of the Governance Report. The Deputy Chief Executive and Treasurer will update members at the meeting with details of all changes to the financial statements previously approved.
15. Appendix 3 of the Governance Report identifies two issues which have not been adjusted in relation to the Insurance Provision of £700k and overstated accruals charged to 2008/09. These issues are not considered material and in the case of the Insurance Provision an appropriate adjustment will be made in 2009/10.
16. Before the opinion can be issued the letter of representation issued by the Authority in connection with the financial statements also needs to be approved. A copy is attached at Annex B.
17. The final version of the accounts incorporating the amendments referred to above and agreed with the District Auditor is attached at Annex C.

USE OF RESOURCES

18. Members will recall that last year the District Auditor's Use of Resources (PURE) judgement was issued after completion of his report on the Annual Accounts and this was reported to this Committee on 4 November 2008.
19. Members have been made aware in previous reports that the arrangements for Use of Resources for 2008/09 have been amended with a move from judgements covering the themes of financial reporting, financial management, internal control, financial standing and value for money. The Use of Resources score for 2008/09 covers these themes: managing finances, governing the business and managing resources (for police authorities managing resources related to workforce planning).
20. In 2006/07 and 2007/08 the Audit Commission scored police authorities under the old Police Use of Resources Evaluation (PURE) assessment methodology. Under this arrangement the Commission used the score range of 1 - 4 as follows:
 - Level 1- failure to meet the minimum requirements of level 2
 - Level 2- performs adequately
 - Level 3- performs well
 - Level 4- performs excellently

21. Under PURE, the Authority's score improved from "2" in 2006/07 to "3" in 2007/08. Unfortunately, for 2008/09, the scoring mechanism has remained as detailed above despite the fact that the Use of Resources framework for the year is a different and "harder test".
22. The Audit Commission provided the Authority with details of its score on 14 September 2009. The District Auditor's overall score for Humberside was 2 i.e. performing adequately.
23. The latest information on this year's overall scores nationally indicates that Humberside is one of 18 authorities that have scored "2" with 25 authorities having received a score of '3'. There are no scores at '4' and none at '1'. More than 50% of authorities have seen their scores fall in this year's assessment (N.B.: it should be noted that these scores are subject to review and that a number of authorities submitted appeals by the deadline of 21 September 2009 and these are currently being considered by the Audit Commission which could result in changes to the scores reported).
24. Using the new framework set out in the Annual Governance Report, the Auditor's judgement is based on the following theme scores:

○ Managing Finances	1
○ Governing the Business	2
○ Managing Resources	2
○ Overall Score	2
25. The District Auditor's score in respect of the Managing Finances theme has resulted in him qualifying his value for money conclusion.
26. Prior to the announcement of the results, there was widespread concern amongst Authorities and Forces, which was expressed to the Audit Commission, that without adequate explanatory information, the public would be naturally inclined to make a simple comparison and come to the conclusion that standards had declined with the danger of a corresponding impact on public confidence in policing and police authorities.
27. In addition, officers have shared experiences through both Police Authority Treasurers' and ACPO Finance Officers' networks resulting in further concerns about the lack of consistency in the way the Use of Resources exercise has been conducted. This concern was exacerbated when the scores were e-mailed or announced on 14 September 2009 without prior warning and in our case without prior discussion.

28. In the absence of the full report on Use of Resources, which has yet to be received, the Auditor's opinion primarily relates to the timeliness and accuracy of financial reporting and the arrangements for planning for financial health. The only detailed justification for his judgement available at this time is set out in paragraph 15 of the Annual Governance report:
- 'Whilst the Authority can demonstrate that it has a sound understanding of its costs and performance, the arrangements in place for identifying and reporting forecast budget variances are weak. The Authority plans its finances over the medium term based on unreliable financial reports.'
29. The District Auditor's judgment has obviously been significantly influenced by the underspend reported at the end of the financial year. Members will of course recall that the areas in need of development which presumably gave rise to the Auditor's concerns were raised in our Annual Governance Statement approved on 30 June 2009 and that this also included details of the proposed actions to secure improvement. They are therefore of no surprise to this Committee. Indeed the report at agenda item 7 considers progress against these actions where work has been underway for some time.
30. Given the efforts that have been made to develop our Medium Term Financial Strategy and more particularly in view of the challenge that has been set and taken up by the Chief Constable to balance the budget within 5 years, the work that is underway in relation to both Workforce Modernisation and the Choices programme, the fact that the Authority has budgeted within the cap on a consistent basis, it has substantial reserves and there are no material issues with the accounts to suggest that there is any doubt about its financial standing at 31 March 2009, in our view any scoring which places disproportionate emphasis on the outturn forecast for 2008/09 does not represent a fair assessment. This is particularly the case when this manifests itself in a score which suggests to the public that the Authority 'fails to meet the minimum requirements', in terms of financial management and in planning for its future financial health.
31. In view of this on 21 September 2009, and following discussions with the Chief Constable, Assistant Chief Officer (Support) and the Deputy Chief Executive and Treasurer, the Chief Executive made a formal request to the Audit Commission for the score to be reviewed.

32. On 23 September 2009, the Audit Commission rejected the appeal on the grounds that reviews can only be made against the overall Use of Resources score and that a change to the Managing Finances theme score would not affect the overall score for the Authority. This is hugely frustrating particularly as the Authority has not seen the Use of Resources report and did not had the opportunity to discuss the scores with the District Auditor before they were released. It seems that even in these circumstances, if the theme score for Managing Finances is unreasonable and isn't a proportionate judgment, the Authority will have to live it and with the suggestion that our arrangements are inadequate, a position which we don't accept and find manifestly unreasonable. Clearly officers will be monitoring the position closely along with the other police authorities and forces that have found themselves in a similar position and will no doubt be considering what further action individually or collectively can be taken to address the matter.

OPTIONS/RISK

33. The Authority has no option other than to consider the issues set out in the report. The issues raised in respect of the accounts will be addressed and the changes that have been agreed with the District Auditor, most of which are largely presentational, have been made to the financial statements to be considered with this report.
34. Officers consider that the matters identified in respect of the overstatement of accruals and the Insurance Provision that have not been amended are not material and in the case of the latter appropriate amendments will be made in 2009/10.

FINANCIAL IMPLICATIONS

35. The changes agreed with the District Auditor do not have any material impact on the financial standing of the Authority as previously reported. The issue of the Insurance Provision will be addressed in 2009/10 and reflected in future budget monitoring reports and in updates of the Authority's Medium Term Financial Strategy.

LEGAL IMPLICATIONS

36. The Authority is required to consider the Auditor's Governance Report and to approve and publish the amended financial statements by 30 September 2009.

EQUALITY AND DIVERSITY IMPLICATIONS

37. There are no direct Equality and Diversity implications arising from the report.

CHILDREN ACT 2004

38. There are no direct implications within this report in terms of the implications on the Authority's obligations in connection with the Children Act 2004.

CONCLUSION

39. The report provides details of the District Auditor's Annual Governance Report which is required to be considered by those charged with governance within the Authority which for the purposes of this report means this Committee. The Report contains details of his findings in respect of his audit of the accounts and gives the Authority's Use of Resources score for 2008/09.
40. The District Auditor's work on the audit of the Authority's accounts in 2008/09 has almost been concluded. A number of changes have been identified as being required during the course of his work which have been discussed with officers and the proposals for dealing with them are set out in this report. If these proposals are accepted and the accounts at Annex C have been amended on the assumption that they will be then, he will be in a position to issue a clean audit opinion on the financial statements by the deadline of 30 September 2009. Officers will be required to complete an action plan in response to the recommendations set out in the Report.
41. The District Auditor has incorporated details of the Authority's Use of Resources score for 2008/09 covering Managing Finances, Governing the Business and Managing Resources. His detailed report on Use of Resources has yet to be received. The process for 2008/09 has been changed and has been labelled as a "harder test" and it is now clear that based on information from the Commission nationally more than 50% of police authorities have seen their scores reduced.
42. The Auditor's assessment for Humberside has resulted in an overall score of '2' i.e. performing adequately. This is based on a score of "1" for Managing Finances, "2" for Governing the Business and "2" for Managing Resources. It is likely that the public will compare this directly with the Authority's Police Use of Resources Evaluation (PURE) score in 2007/08 of '3' (an increase from '2' in 2006/07).
43. The Managing Finances score has resulted in a qualification of his value for money judgement. The Authority made a request for the score to be reviewed but this has been rejected by the Audit Commission and officers are considering whether further representation should be made on the matter.

RECOMMENDATIONS

44. It is recommended that:

- (i) Members note the report and consider the matters raised in the Governance Report in relation to the Annual Accounts,
- (ii) The Deputy Chief Executive and Treasurer be requested to complete and agree the Action plan contained within the Annual Governance Report in consultation with the Assistant Chief Officer (Support),
- (iii) The letter of representation at Annex B be approved,
- (iv) The Statement of Accounts attached at Annex C, incorporating the changes detailed in this report and at the meeting together with the District Auditor's opinions be received, approved and published on the Authority's website,
- (v) Members note the Use of Resources score of '2', i.e. performing adequately, for 2008/09.

JOHN BATES
Deputy Chief Executive and Treasurer

Officer Contact: John Bates

Telephone Number: 01482 334820

Background Papers: JB File Ref Annual Accounts 2009/10