

# **Final Accounts Memo**

**Humberside Police Authority**

**Audit 2005/2006**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our reports to the Authority**

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.

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# Summary report

## Introduction

- 1 The Audit Plan for 2005/06 set out the work that we need to carry out to meet our Code of Audit Practice (the Code) responsibilities. The Code requires us to consider the financial statements, and give our opinion as to whether they present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended.
- 2 Our audit of the financial statements consists of:
  - pre-statements testing of the systems which have a material impact on the statements and the controls in these systems that prevent material errors;
  - post-statements testing of the entries in the financial statements; and
  - whole of government accounts consolidation pack work.
- 3 This report presents our findings from all these areas of work.

## Audit approach

- 4 The International Standards on Auditing (UK and Ireland), (ISAs), apply to all audits of financial statements for periods starting on or after 1 December 2004.
- 5 Our audit approach has been revised for 2005/06 to ensure that we comply with the requirements of the ISAs. The following in particular.
  - ISA (UK&I) 315 requires us to document and gain an understanding of the material information systems relevant to financial reporting.
  - ISA (UK&I) 315 also requires us to gain an understanding of the Authority in relation to its internal controls, IT environment, financial and regularity framework, operational structure, objectives, and financial performance.
  - ISA (UK&I) 240 requires us to consider the risk of fraud from both criminal fraud and intentional misstatement within the financial statements.
  - ISA (UK&I) 330 requires us to test that the accounts have been correctly derived from the financial ledger and that material year end journals are legitimate.
  - ISA (UK&I) 580 requires auditors to obtain written confirmation of representations from management before they issue their opinion.
- 6 Both control and substantive testing has been undertaken in order to meet these requirements and provide us with sufficient assurance to give our opinion on the accounts.

- 7 As in previous years, wherever possible, we have sought to place reliance on Internal Audit's work.

## **Main conclusions**

- 8 Our pre statements work on the Authorities systems showed that we could place reliance on the controls in place.
- 9 Our post statements work identified a number of issues that were reported to the Police Authority in our Annual Governance Report.
- 10 There were a number of other minor issues that arose during the audit and these are shown within the detailed report.
- 11 We were able to give a clean opinion on the final accounts Audit.
- 12 A clean opinion was also given on the Whole of Government Accounts consolidation pack. However the process will be improved by integrating it within the accounts closedown plans.
- 13 We wish to thank the Authority and its staff for their co-operation during the audit.

## Detailed report

### Pre-Statements Testing - ISA (UK&I) 315

- 14 Our review of the Authorities overall arrangements and assessment of risk at the organisation level showed that:
- Internal control arrangements in terms of the protocols and procedures in place, risk assessment procedures, and the overall IT environment are adequate.
- 15 In relation to individual systems, we identified that the following systems have a material impact on the figures that are reported in the financial statements.

**Table 1 Material Information Systems**

| <b>System</b>                         | <b>Provider</b>  |
|---------------------------------------|------------------|
| General Ledger (FMIS)                 | In House         |
| Accounts Receivable (integrated FMIS) | In House         |
| Accounts Payable (integrated FMIS)    | In House         |
| Payroll                               | In House/Morepay |
| Investments/Treasury Management       | In House         |
| Loans                                 | In House/PWLB    |
| Pensions - support staff              | In House/ERYC    |
| Pensions - Police officers            | In House/GAD     |
| Asset/Contract Management             | In House         |

- 16 Our work concentrated on the systems and operations provided locally, as we receive separate letters of assurance through the Audit Commission from the auditors of the ERYC pension fund, GAD, and we also receive direct confirmation from the PWLB of loan balances.
- 17 This work initially was to document our understanding of the workings of the systems identified above, and to identify the controls that are in place within the system. This was substantially done by relying on the work of internal audit, and the practice notes held by the force.

- 18 A walk through test was carried out to confirm that our understanding was correct and indeed the controls identified in the systems were indeed in place. We did not however test whether all these controls were indeed working throughout the year.
- 19 Where necessary compliance testing, and or, a review of compliance testing by Internal Audit was carried out for us to reduce the inherent risk of material misstatement within the statements of account.
- 20 Where inherent risk was still present additional substantive procedures were carried out at the Post Statements Audit.

## Post Statements Audit

- 21 The financial statements were prepared by the statutory deadline of 30 June 2006. A clean opinion was given on the Statements on 30 September 2006.
- 22 The Annual Governance Report was presented to the Police Authority on 19 September 2006. This is a new report required under ISA (UK&I) 260 and replaces the SAS 610 report presented in previous years. The issues of significance brought to the attention of the Authority were:
  - the approach to the treatment of reserves in the financial statements can be improved to ensure that they fully reflect the Authority's considered view as to its commitments;
  - working papers supporting the debtors and creditors values should be improved to provide a clearer audit trail to support the values in the statement of accounts; and
  - the cumulative income and expenditure of Operation Lifestyle shown as a net balance of £181,000 in creditors in an incorrect accounting treatment and needs to be corrected for 2006/07.
- 23 There was an over provision for bad debts of £100,000.
- 24 There were a number of minor amendments made to the accounts, and other minor issues that arose during the audit, and these are reflected in Appendix 1.
- 25 All recommendations made from the Annual Governance Report and from the other issues identified in Appendix 1 are included in the action plan shown in Appendix 2.

## Whole of Government Accounts Audit

- 26 Humberside Police Authority is required to produce a consolidation pack for Whole of Government Accounts (WGA) in accordance with the instructions from the HM Treasury.
- 27 The consolidation pack is a summary of the detail held within the statement of accounts with additional information of transactions and balances with other government bodies, known as Counter-Party bodies.
- 28 The deadline for the audited return was 6 October 2006. A clean opinion was given on this consolidation pack on the 6 October 2006.
- 29 The production of the consolidation pack was completed as a separate exercise as that of the production of the accounts.
- 30 The consolidation pack was only completed on the 4 October 2006, and had not been reviewed by an appropriate senior officer when presented for audit.
- 31 It appeared that a significant amount of additional work was carried out identifying the counter-party transactions and balances up to and on 4 October. To cut out duplication it would be beneficial to include the WGA consolidation work during the closedown for the production of the statements.
- 32 The counter-party spreadsheet that was presented for audit included all transactions and balances of more than £1k, however the guidance supplied by HM treasury stated that only balances of over £1m need to be disclosed, therefore additional work was carried out by force finance staff, and the schedules needed amending.

| <b>Recommendations</b>   |
|--|
| <i>R1 Ensure that the production of the WGA consolidation pack is included as part of the 2006/07 statement of accounts closedown plans.</i> |
| <i>R2 Improve the 2006/07 accruals processes to reflect the disclosure requirements of the SORP and WGA consolidation pack.</i>              |
| <i>R3 Ensure that there is evidenced senior officer review of the WGA consolidation pack before it is submitted for audit.</i>               |

## Appendix 1 – Matters Arising - Final Accounts Audit 2005/06

**Table 2 Summary of issues arising**

| Area   | Issue  | Type                         | Action taken/<br>Recommendation.   | Accounts amended?<br>Yes/No |
|--|--|------------------------------|--|-----------------------------|
| Revenue Account.                                 | Included in Non Distributable Costs (NDC) was past service costs, which did not meet the requirements for NDC per the SORP.  | Disclosure.                  | Accounts amended.  | Yes                         |
| Working papers supporting debtors and creditors. | The working papers for debtors and creditors provided to support the statements approved for audit did not provide a clear audit trail to support the values in the accounts, errors of classification between debtors and creditors were identified when reconciling back to prime documentation. These did not affect the revenue account. | Disclosure and Misstatement. | Working papers supporting the debtors and creditors values should be improved to provide a clear audit trail to support the values in the statements of account. | Yes                         |
| Prepayments and Income in advance.               | Statements received for audit had the disclosure of these balances as nil, however significant balances were held.   | Disclosure.                  | Improve the 2006/07 accruals processes to reflect the disclosure requirements of the SORP and Whole of Government Accounts (WGA) consolidation pack.             | Yes                         |

| Area                 | Issue  | Type          | Action taken/<br>Recommendation.  | Accounts amended?<br>Yes/No |
|----------------------|--|---------------|---|-----------------------------|
| Bad Debt Provision.  | The provision remained at the same level as 2004/05.   | Misstatement. | Agree policy on provision for bad debts, and include review of provision within the year end closedown plan for 2006/07.  | No                          |
| Operation lifestyle. | The income and expenditure codes for operation lifestyle are showing the cumulative balances. These have been included net within creditors.   | Disclosure.   | Ensure for the 2006/07 statement of accounts that Operation Lifestyle income, expenditure and balance is correctly treated within the statement of accounts.  | No                          |
| General.             | Minor typographical errors were identified both by us and officers during the course of the audit.   | Disclosure.   | Accounts amended.   | Wording amended.            |
| Reserves.            | The disclosure note for specific reserves in the statements approved for audit did not match the agreed recommendations of members. In addition the narrative to note 13 suggests that the Investment reserve supports the base budget - in our view this is not specific and should be included as a general reserve. | Disclosure.   | A full review of the specific reserves be carried out to identify those that are still needed and agreed by the Authority, and those that have been built up to support the medium term financial position of the Authority, these should be included as a general reserve. | Yes                         |

## Appendix 2 – Action Plan

| Page no. | Recommendation   | Priority<br>1 = Low<br>2 = Med<br>3 = High | Responsibility                        | Agreed | Comments | Date |
|----------|--|--|---------------------------------------|--------|----------|------|
| 8        | R1 Ensure that the production of the WGA consolidation pack is included as part of the 2006/07 statement of accounts closedown plans.  | 3  |                                       |        |          |      |
| 8        | R2 Improve the 2006/07 accruals processes to reflect the disclosure requirements of the SORP and WGA consolidation pack.   | 3  |                                       |        |          |      |
| 8        | R3 Ensure that there is evidenced senior officer review of the WGA consolidation pack before it is submitted for audit.  | 3  | Director of Performance and Resources |        |          |      |
| 10       | R4 A full review of the specific reserves be carried out to identify those that are still needed and agreed by the Authority, and those that have been built up to support the medium-term financial position of the Authority, these should be included as a general reserve. | 3  | Director of Performance and Resources |        |          |      |
| 9        | R5 Working papers supporting the debtors and creditors values should be improved to provide a clear audit trail to support the values in the statements of account.  | 3  |                                       |        |          |      |

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| Page no. | Recommendation  | Priority<br>1 = Low<br>2 = Med<br>3 = High | Responsibility | Agreed | Comments | Date |
|----------|---|--|----------------|--------|----------|------|
| 10       | R6 Agree policy on provision for bad debts, and include review of provision within the year end closedown plan for 2006/07.                                     | 1  |                |        |          |      |
| 10       | R7 Ensure for the 2006/07 statement of accounts that Operation Lifestyle income, expenditure and balance is correctly treated within the statement of accounts. | 1  |                |        |          |      |