

# Annual Governance Report

Humberside Police Authority

Audit 2009/10

Date

---

# Contents

<b>Key messages</b>	<b>4</b>
<b>Next steps</b>	<b>5</b>
<b>Financial statements</b>	<b>6</b>
<b>Value for money</b>	<b>9</b>
<b>Glossary</b>	<b>10</b>
<b>Appendix 1 – Independent auditor’s report to Members of Humberside Police Authority</b>	<b>11</b>
<b>Appendix 2 – Amendments to the draft accounts</b>	<b>15</b>
<b>Appendix 3 – Unadjusted misstatements in the accounts</b>	<b>17</b>
<b>Appendix 4 – Draft letter of representation</b>	<b>18</b>
<b>Appendix 5 – Value for money criteria</b>	<b>21</b>
<b>Appendix 6 – Action plan</b>	<b>22</b>

---

## 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 final version of my report on the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Deputy Chief Executive & Treasurer on 17 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 approving the financial statements (pages 6 to 8);
- 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

Mark Kirkham  
District Auditor

20 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.

<b>Financial statements</b>	<b>Results</b>	<b>Page</b>
Unqualified audit opinion	Yes	6
Financial statements free from material error	Yes	6
Adequate internal control environment	Yes	6
<b>Value for money</b>	<b>Results</b>	<b>Page</b>
Adequate arrangements to secure value for money	Yes	9

## Audit opinion

- 1 I expect to issue an unqualified audit opinion on the financial statements.

## Financial statements

- 2 The draft financial statements were found to include a single material misstatement. This arose due to the interpretation of Local Authority Accounting Panel (LAAP) Bulletins 81 and 84 and has subsequently been amended within the accounts.

## Value for money

- 3 I expect to issue an unqualified value for money conclusion.

## Independence

- 4 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

# 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.**

---

**5** I ask the Finance Committee to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 8);
- 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 before you adopt the financial statements and the annual governance statement.**

---

## Opinion on the financial statements

- 6** 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

- 7** I identified a single material misstatement within the financial statements. The Authority's interpretation of LAAP bulletins 81 and 84 led to £5.3m of unamortised government grants deferred being written back to the I&E account in year, in addition to that expected as income to match depreciation of grant funded assets. My interpretation is that only unamortised balances of government grants deferred which cannot be reasonably matched to corresponding assets should be written out during 2009/10. The accounts have been amended to show the £5.3m balance held in the government grants deferred account at 31 March 2010.
- 8** Whilst the 2009/10 Net Cost of Service 'Net expenditure' shows a decrease of £5.3m from the draft financial statements, under the International Financial Reporting Standards (IFRS) accounting regime to be introduced from 2010/11 onwards I expect the treatment of government grants deferred to be consistent with the original treatment within the draft accounts. There will be no net impact on the financial standing of the Authority.
- 9** I did identify a small number of errors which were not material but are considered non-trivial. Those which management have agreed to adjust within the financial statements are shown within Appendix 2. Those which management have not agreed to adjust within the financial statements are shown within Appendix 3.

---

## Important weaknesses in internal control

- 10** I found that individual finance officers were able to prepare, authorise and input the same year end journals. This increases the risk of material accounting adjustments being posted in error to the general ledger, either deliberately or inadvertently.
- 11** Following the implementation of the new payroll system during 2009/10, monthly payroll to general ledger control account reconciliations have not been completed on a

## Financial statements

timely basis. This increases the risk that the general ledger does not accurately reflect the transactions processed through the payroll system.

Recommendation	
<b>R1</b>	The Authority should ensure that year end journals are subject to appropriate segregation of duties controls.
<b>R2</b>	The Authority should ensure that monthly payroll to general ledger reconciliations are completed on a timely basis.

## Letter of representation

**12** 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 4 contains the draft letter of representation.

## Key areas of judgement and audit risk

**13** 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 or risk	Finding
<i>Manipulation of financial performance in order to ensure that year end expenditure matches in year forecasts.</i>	Disclosure of expenditure has not been manipulated in order to match in year forecasts.
<i>First time disclosure of revised Service Expenditure Analysis (SEA) on the face of the income &amp; expenditure account.</i>	Disclosure of 2008/09 and 2009/10 income and expenditure under the revised SEA arrangements presents a true and fair view of the Authority's financial position.
<i>Implementation of new payroll system during 2009/10.</i>	The disclosure of payroll information within the financial statements presents a true and fair view of the Authority's financial position.
<i>Changes in accounting for council tax.</i>	Whilst I identified non material, non trivial adjustments required to the financial statements, the first time disclosure of revised council tax reporting arrangements presents a true and fair view of the Authority's financial position.

Issue or risk	Finding
<i>Changes to disclosure of senior officers' remuneration</i>	Disclosure consistent with reporting requirements.

### Accounting practice and financial reporting

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

**Table 2**

Issue or risk	Finding
Non compliance with qualitative aspects of FRS3 following requirement to make Prior Period Adjustments (PPA's).	Main financial statements did not disclose the heading 'Restated' in respect of prior period comparators. STRGL did not include a footer disclosing the cumulative net impact of PPA's. Narrative has been amended to ensure compliance with FRS3
Non compliance with accounting policy 11 in respect of £6k de minimis for recognising capital receipts.	Two capital receipts above £6k were found to have been treated as revenue income. In practice, a de minimis level of £10k is being applied. The accounting policies have been amended to reflect the £10k de minimis level.
Prior year comparators within note 19 'Statement of Physical Assets' do not agree to 2008/09 audited accounts.	Comparators within note 19 did not agree to the 2008/09 audited accounts. The comparators have been adjusted to reflect the appropriate figures.
Note 21 'Property Valuations' contains narrative that relates to the 2008/09 property valuation exercise.	Note 21 'Property Valuations' had not been updated to reflect the valuation exercise carried out during 2009/10. The note has been updated appropriately.

# 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. I have based my conclusion on my work on the scored use of resources judgement.**

---

## Value for money conclusion

- 15** 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.
- 16** 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.

---

# Glossary

---

## Annual governance statement

**17** A statement of internal control prepared by an audited body and published with the financial statements.

---

## Audit closure certificate

**18** 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

**19** 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;
  - whether they have been prepared properly, following the relevant accounting rules; and
  - for local probation boards and trusts, on the regularity of their spending and income.
- 

## Qualified

**20** The auditor has some reservations or concerns.

---

## Unqualified

**21** The auditor does not have any reservations.

---

## Value for money conclusion

**22** 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 Humberside Police Authority

---

## Opinion on the accounting statements

I have audited the accounting statements, the police pension fund accounting statements and related notes of Humberside 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 Humberside 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
- 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. 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

## Appendix 1 – Independent auditor’s report to Members of Humberside Police Authority

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, Humberside Police Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

#### 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.

Mark Kirkham  
District Auditor

3 Leeds City Office Park  
Holbeck  
Leeds

**Appendix 1 – Independent auditor’s report to Members of Humberside Police Authority**

LS11 5BD

[Date]

# 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**

		Income and Expenditure Account		Balance sheet	
Adjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
£5,269k	Amortised government grants deferred written back to balance sheet. Misstatement arising due to differing interpretation of LAAP bulletins 81 and 84, discussed within paragraph 7 of main report	5,269			5,269
£2,387k	Balance of government grants deferred amortised in year adjusted to be shown as gross expenditure and income. Initial disclosure was a net figure shown within gross expenditure.	2,387	2,387		
£352k	Adjustments to incorrect 2008/09 comparator entries posted to support prior period adjustment in respect of revised collection fund accounting		352	352	

## Appendix 2 – Amendments to the draft accounts

		Income and Expenditure Account		Balance sheet	
	arrangements. Income from council tax payers was initially understated.				
£484k	Adjustments to incorrect 2009/10 accounting entries in respect of revised collection fund accounting arrangements. Income from council tax payers was initially understated.		484	484	
£various	Comparators in note 44 'Reconciliation of net deficit on the I&E to revenue activities net cash flow' adjusted to reflect prior period adjustment carried out in respect of revised collection fund accounting arrangements.	nil	nil	nil	nil
£198k	Fair value of PWLB loans within note 48 Financial instruments adjusted to ensure consistency with PWLB confirmation of balances.	nil	nil	nil	nil

# 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 £ million
Buildings fixed assets have been revalued as at 31 March 2010, and in year capital expenditure on these assets has been added to the asset values disclosed within the valuer's report. The values of the assets have been overstated by the balance of additions, as the capital expenditure has been taken account of by the valuer and represents expenditure that has not added value to the assets. The balance of additional capital expenditure should have been disclosed as an impairment within the financial statements, and not added to the value of fixed assets.	Income and expenditure account - Net cost of Service Gross Expenditure Balance Sheet - Operational Assets Land and Buildings	1.8

# Appendix 4 – Draft letter of representation

To:

Mr Mark Kirkham  
District Auditor  
3 Leeds City Office Park  
Holbeck  
Leeds  
West Yorks  
LS11 5BD

## **Humberside 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 [insert relevant details e.g.; directors, officers, officials] of Humberside 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 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 give a true and fair view of the financial position and financial performance of the Authority, and for making accurate representations to you.

### **Uncorrected misstatements**

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in Appendix 3 of the 2009/10 Annual Governance Report are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Police Authority and the reasons for not correcting these items are as follows;

- [reason 1 etc;
- reason 2]

### **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.

## Appendix 4 – Draft letter of representation

### 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
- 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.

The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

### Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements.

For each 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
- if subsequent events 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.

**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**

Since the date of approval of the financial statements by the Finance Committee, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements, other than the Chancellor of the Exchequer's announcement in his Emergency Budget on 22 June 2010 that the consumer prices index rather than the retail prices index will be the basis for future public sector pension increases.

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 Humberside Police Authority

I confirm that the this letter has been discussed and agreed by the Authority on [date]

Signed

Name

Position

Date

# Appendix 5 – Value for money criteria

<b>KLOE</b>	<b>Met</b>
<b>Managing finances</b>	
Planning for financial health	<b>Yes</b>
Understanding costs and achieving efficiencies	<b>Yes</b>
Financial reporting	<b>Yes</b>
<b>Governing the business</b>	
Commissioning and procurement	<b>Yes</b>
Use of information	<b>Yes</b>
Good governance	<b>Yes</b>
Risk management and internal control	<b>Yes</b>
<b>Managing resources</b>	
Natural resources	<b>Yes</b>
Strategic asset management	<b>N/a</b>
Workforce	<b>Yes</b>

## Appendix 6 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Annual Governance Report 2009/10 - Recommendations</b>						
7	R1 The Authority should ensure that year end journals are subject to appropriate segregation of duties controls.	2				
7	R2 The Authority should ensure that monthly payroll to general ledger reconciliations are completed on a timely basis.	3				

# 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.

---

## Copies of this report

If you require further copies of this report, or a copy in large print, Braille, audio or in a language other than English, please call 0844 798 7070.

© Audit Commission 2010

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

---