

Police Annual Audit Letter

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Annual Audit Letter

Humberside Police Authority

Audit 2005/2006

File classification: NOT PROTECTIVELY MARKED - NO DESCRIPTOR

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 report

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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The purpose of this letter

- 1 The purpose of this Annual Audit Letter (letter) is to summarise the key issues arising from the work that we have carried out during the year. Although this letter is addressed to the members of the Authority, it is also intended to communicate the significant issues we have identified, in an accessible style, to key external stakeholders, including members of the public. The letter will be published on the Audit Commission website at www.audit-commission.gov.uk.
- 2 This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from www.audit-commission.gov.uk.

The responsibilities of the auditor and the Authority

- 3 We have been appointed as the Authority's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England, including Police Authorities.
- 4 As the Authority's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Authority achieving its objectives. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

The scope of our work

- 5 Our main responsibility as your appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:
 - the Authority's accounts; and
 - whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 6 This letter summarises the significant issues arising from both these areas of work and highlights the key recommendations that we consider should be addressed by the Authority. A list of all reports issued to the Authority in relation to the 2005/06 audit is provided in the closing remarks section at the end of this letter.

The audit of the accounts

- 7 We gave an unqualified opinion on the financial statements on 29 September 2006 in advance of the deadline of 30 September.
- 8 A clean opinion was also given on the dry-run of the Whole of Government Accounts consolidation pack.
- 9 The accounts presented for audit were available in line with the tighter deadline of 30 June 2006 and were supported by adequate working papers. We reported a number of issues in our Governance report presented to the Police Authority on 23 September 2006. The Authority should ensure that the agreed action to address these issues is now being taken.

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Use of resources

Overall position

- 10 We are required to issue a conclusion on whether we are satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion and is given with regard to twelve criteria established by the Audit Commission. We concluded that the Authority had put in place satisfactory arrangements except for the one that related to its arrangements for managing performance against budgets.
- 11 We are also required to assess how well Police authorities manage and use their financial resources by providing scored judgements on the Authority's arrangements in five specific areas. This is known as the Police Use of Resources Evaluation (PURE) and was completed for the first time in 2006. The Audit Commission use the results from this assessment to produce an overall score for the Authority. The score for 2006 was 2 (only at minimum requirements - adequate performance). This overall score is integrated into Her Majesty's Inspectorate of Constabulary's (HMIC) overall assessment of the performance of Humberside Police. The HMIC published its national assessment of Police Forces in November 2006 (Table 2). The Resource Use domain was assessed as fair for delivery and improved for direction of travel.

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Financial position

2005/06

- 12 The Authority approved a budget of £156.9m for 2005/06. An underspend of £5.4m against this budget was reported to the Audit and Strategy Committee on 23 May 2006. This underspend was after agreeing carry forward commitments of £6.1m. The overall underspend included £1.6m of capital funding not needed in 2005/06 due to capital slippage, this has also been carried forward into 2006/07.

- 13 The underspend of £5.4 million has been transferred to general reserves leaving the Authority at 31 March 2006 with £39.1 million of reserves to meet its future financial commitments.
- 14 This put the Authority in a strong financial position as at March 2006. This has been reflected in my Police Use of Resources Evaluation discussed below.

2006/07

- 15 The priorities and budget setting for 2006/07 was carried out at the time that a merger was probable at March 2008, therefore the Authority took the decision to plan in the medium term to provide the successor Authority a balanced budget as at March 2008 with risk based reserves, and the 5 year forecast estimated the balance of the investment reserve to be £8.3 million by March 2008. Members were also sighted to a medium term forecast beyond March 2008 in the event that mergers did not go ahead.
- 16 With the above in mind the revenue budget for 2006/07 was approved by Members at £161.8 million. It was planned that £20.6 million of the reserves would be used in 2006/07 to support the revenue budget and to fund the capital expenditure (£12.2 million). As reported to the Audit and Strategy Committee 12 September 2006 the projected revenue outturn for 2006/07 is an underspend of £982,000. It was also anticipated that there would be capital slippage of £4.8 million against the capital programme of £17.3 million. Thus the anticipated use of reserves has fallen from £20.6 million to £14.9 million.

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Future Prospects

- 17 In light of the change in circumstances surrounding merger the latest 5 year forecast (produced for strategy team 29 November 2006), estimates that the investment reserve will be in the region of £17.4 million on 31 March 2008. However, this forecast shows that approximately £2.4 million will be needed from reserves to support the revenue budget in years 3-5. In addition to this it is estimated that £6 million will also be needed to finance the proposed capital programme. By March 2011 the investment reserve is estimated at around £8.7 million.
- 18 The Government published its draft report on the Police funding for 2007/08 on 28 November 2006. I understand that this will reduce PCSO grant funding to the Authority which will increase the cost of continuing with your strategic commitment to employ 307 PCSOs.
- 19 The Authority will need to consider all the implications of the Government funding decisions in reviewing its financial strategy particularly in the context of the levels of pay inflation and additional spending pressures, including, those under consideration to close the gap in protective service, in which the Force and Authority are working jointly with their counterparts in the region.

- 20 I recognise that the uncertainty caused by the plans for reorganisation has been a significant factor in relation to this process but I believe that Members should take the opportunity of the forthcoming budget setting process to ensure that the available finances are aligned to the priorities to enable the required improvements in performance happen. In addition the Authority will need to consider the outcomes of the recent baseline assessment and the current HMIC inspection activity within the Force when they are available.

Recommendation

R1 Members need to reappraise their policy on the levels of reserves that they feel is necessary to deliver the significant improvements needed in performance over the next few years

Value for money conclusion

- 21 We concluded that the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources except for the Authority's failure to put in place arrangements for managing performance against budgets.

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Recommendation

R2 Ensure that the Authority monitor the new resource performance assessment framework (RPAF) to ensure that it provides effective management of resources especially in relation to the management of in year resources.

Police Use of Resources Evaluation (PURE)

- 22 We assessed the Authority's arrangements in five areas. Each area was scored from 1 to 4 (1= below minimum standards - inadequate performance, 2 = only at minimum requirements - adequate performance, 3 = consistently above minimum requirements - performing well and 4 =well above minimum requirements - performing strongly). An interim report supporting our assessment on 4 of the themes and highlighting areas for improvement was issued to the Authority in July 2006 with a final report including the Financial Reporting theme October 2006. Both reports were made available to HMIC to inform its baseline assessment. The details of the baseline assessment are shown in Table 2 with the Resource Use Domain being assessed as Fair for delivery and Improved for direction of travel.

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Table 1 **PURE scores**

Area	Score	Summary Findings
Financial reporting	3	The Authority performed well in this area. The Authority has improved the access to information for the public by keeping the website up to date with relevant documents. However, improvements are possible in the publishing of summary financial statements.
Financial management	2	The Authority has met the minimum standards of performance in its financial management. It has in place a medium term financial strategy designed to deliver its strategic priorities. It must align its base budget with actual spending to ensure that it makes best use of the available resources while identifying all pressure areas. The Authority needs to improve the consistency and reliability of its budget monitoring arrangements.
Financial standing	3	The Authority has performed well in this area. It has always spent within its budgets.
Internal Control	2	The Authority has met the minimum standards in this area. It has adequate policies and procedures in place in relation to internal control. The Authority has in place arrangements that mirror those working in the Force which will enable them to carry out their responsibilities better. The Authority and Force need to be more proactive in terms of promoting the policies and procedures and monitoring compliance with them. The internal control framework can be improved by fully embedding the recent developments in risk management across the Authority and the Force.
Value for money	2	The Authority has met minimum standards for value for money. It continues to improve performance monitoring arrangements. Benchmarking of support services has been undertaken in most

Area	Score	Summary Findings
		areas. Efficiency targets have been met (and consistently exceeded). However the Force needs to ensure that the workforce modernisation programme maximises the numbers of officers for front line duties.
Overall	2	

Recommendation

R3 The Police Authority should ensure that action plans to address the issues identified in the PURE assessment are put in place and monitor their delivery. The Authority should ensure that effective remedial action is taken when agreed actions are not completed.

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HMIC Baseline Assessment.

23 The (HMIC) 2005/06 baseline assessment of the Force's performance which was published on the 24 October 2006. The results of this assessment are shown in the table below.

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Table 2 HMIC assessment

Domain	Delivery	Direction of Travel
Reducing Crime	Fair	Improved
Investigating Crime	Fair	Improved
Promoting Safety	Fair	Improved
Providing Assistance	Poor	Stable
Citizen Focus	Fair	Improved
Resource Use	Fair	Improved
Local Policing	Poor	Stable

HMIC comments - The Force has achieved some significant reductions in crime levels, and the formation of a major investigation team has greatly improved its capability to respond and effectively to the major crime incidents. Implementation of the incident-handling improvement team project has had a significant impact on call handling by delivering a far better quality of service to the public. Call handling and response remain significant challenges, as do increasing community engagement and using new funding to produce real outcomes. The recent introduction of the volume crime model presents a major challenge but should lead to increased sanction detections and crime reduction. The roll-out of neighbourhood policing and the integration of police community support officers will strengthen community policing and reduce the fear of crime even further.

Source: Home Office report of 24 October 2006

- 24 I have already recommended that the Authority uses the forthcoming budget setting process to ensure that resources are more fully aligned to priorities. The priorities clearly should have regard to the HMIC assessment.

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Other reviews

25 We completed two other reviews during the year to inform my conclusions under the Code of Audit Practice. These are summarised in the following table.

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Table 3 Activity Based Costing and Crime Recoding Reviews

Review	Conclusion and findings	Key issues and actions
<p>Activity Based Costing</p> <p>We assessed the implementation of Activity Based Costing (ABC) by considering whether the Authority has systems in place to produce an accurate submission of costing data to the Home Office.</p>	<p>We assessed the ABC costing submission, data quality and management arrangements and utilisation at Humberside Police Authority as Fair.</p>	<p>Develop a clear policy on ABC development defining roles and responsibilities, this should place greater responsibility on specialist department management teams to provide and maintain accurate cost drivers for the ABC model. It should also ensure that there is sufficient expertise in the costing model in order to provide advice and support. We note that the introduction of RPAF and the additional resources in the finance unit should help deliver the improvements necessary</p>
<p>Review of Crime Data Quality</p> <p>We reviewed the arrangements in place for recording and reporting crime data focusing on elements of data reported in the Police Performance Assessment Framework (PPAF).</p>	<p>Our conclusion was that arrangements had improved from the previous year and our rating is now Good. The detailed data testing was assessed as Excellent maintaining the performance from last year.</p>	<p>Monitor the implementation of the agreed action plan.</p>

Closing remarks

- 26 This letter has been discussed with the Director of Performance and Resources (Police Authority), and the ACO (support) (Force) who have had the opportunity to comment on the document. A copy of the letter will be presented at the Police Authority on 19 December 2006 and copies will be provided to all Authority members.
- 27 Further detailed findings, conclusions and recommendations on the areas covered by our audit are included in the reports issued to the Authority during the year. These are listed in the following table.

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Table 4 Reports Issued

Audit Plan	May 2005
Final Accounts	October 2006
Annual Governance Report including opinion on accounts and VFM conclusion.	September 2006
PURE Interim Report	July 2006
PURE Final Report	October 2006
Activity Based Costing	November 2006
Crime Data Quality	May 2006
Annual Audit Letter	Nov 2006

I would like to take this opportunity to thank the Authority for its assistance and co-operation during the course of the audit.

**District Auditor
November 2006**