



# **Annual Governance Report**

**Humberside Police Authority**

**Audit 2006-2007**

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**

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.

### **Copies of this report**

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

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## Purpose of this document

- 1 In accordance with the Audit Commission's Code of Audit Practice (the Code), this report provides a summary of the work we have carried out during our 2006/07 audit of accounts, the conclusions we have reached and the recommendations we have made to discharge our statutory audit responsibilities to those charged with governance in this case the Police Authority at the time they are considering the financial statements.
- 2 In preparing our report, the Code requires us to comply with the requirements of International Standards on Auditing (United Kingdom & Ireland) – ISA (UK&I) - 260 'Communication of Audit Matters to Those Charged With Governance', by reporting to you matters relating to the audit of the financial statements. Other auditing standards require us to communicate with you in other specific circumstances including:
  - where we suspect or detect fraud;
  - where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
  - non-compliance with legislative or regulatory requirements and related authorities.
- 3 We are also required to communicate to you the Audit Commission's requirements in respect of independence and objectivity, and these are set out at Appendix 1.
- 4 This report has been prepared for presentation to the Police Authority on 18 September 2007. Members are invited to:
  - consider the matters raised in the report before the financial statements are approved; and
  - approve the representation letter on behalf of the Authority and those charged with governance before we issue our opinion;
- 5 Our work during the year was performed in line with the revised audit plan that we presented to you on 12 December 2006. We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 2.

## Key messages

- 6 Our work on the financial statements is substantially complete. However we have still to audit the Whole of Government Accounts (WGA) consolidation package. Should any further matters arise in concluding the outstanding work that need to be reported, we will raise them with the Director of Performance and Resources. We propose issuing an unqualified audit opinion on 30 September 2007 (a draft report is attached at Appendix 3).
- 7 In our view, the Statement on Internal Control (SIC) has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit.
- 8 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. We propose issuing an unqualified conclusion on the use of resources on 30 September 2007 (a draft report is attached at Appendix 3).

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## Audit status

- 9 At the date of issue of this report our detailed audit is substantially complete. However we have still to audit the Whole of Government Accounts (WGA) consolidation package.
- 10 The Authority has taken a positive and constructive approach to our audit and we would like to take this opportunity to express our appreciation for the Authority's assistance and co-operation.

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## Accounts and Statement on Internal Control

- 11 Our work on the financial statements is substantially complete. However we have still to audit the Whole of Government Accounts (WGA) consolidation package.
- 12 Auditors are required to obtain written confirmation of certain representations from management and those charged with governance before an audit report is issued, such as acknowledgement of responsibility for the fair presentation of the financial statements in accordance with the applicable financial reporting framework and responsibility for the design and implementation of internal control to prevent and detect error.
- 13 The auditor should also obtain written representations from management on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist.
- 14 The final draft of the letter of representation has been attached as Appendix 4.

### Unadjusted misstatements

- 15 We are required to report to you all unadjusted misstatements that we have identified during the course of our audit, other than those that are clearly trivial.
- 16 There are no unadjusted misstatements for us to bring to the attention of members.

### Adjustments to the financial statements

- 17 We are also required to bring to your attention misstatements that have already been corrected by management where we consider them relevant to your wider governance responsibilities. We provide an analysis of the most significant items in table 1 for your attention.

**Table 1 Adjusted Misstatement**

Misstatement Detail	Value of Misstatement	Effect on General Fund Reserve
Statement of Movement on the General Fund Balance - Incorrect disclosure of 2005/06 opening balance, including Balance Sheet Disclosure.	£8,028,000	Nil

Misstatement Detail	Value of Misstatement	Effect on General Fund Reserve
Non Disclosure of Leased Buildings - Note 4 to the Core financial statements	£298,000	Nil
Incomplete Disclosure - Related Party Transactions	£415,000	Nil
Correction of Accounting Treatment of Pension Top-up grant - Following late guidance.	£5,059,000	Nil
Errors included in the classifications of the Notes to the Cash Flow Statement.	£3,200,000	Nil

*Audit Commission audit file*

## Accounting practices

- 18 We are also required to report to you our view on the qualitative aspects of the Authority's accounting practices and financial reporting and have set out below our observations on key issues affecting the Authority.
- 19 The statements that were originally approved by the Authority did not comply with the Statement of Recognised Practice 2006 (SORP), specifically paragraph A2 Module 3 of the SORP which states that:
- 20 The Statement of Accounts, requirements that the "core" financial statements be grouped together in the following order:
- Income and Expenditure Account
  - Statement of the Movement on the General Fund Balance
  - Statement of Total Recognised Gains and Losses (STRGL)
  - Balance Sheet
  - Cash Flow Statements
- 21 The "core" financial statements are then followed by the Notes to the accounts (including police pensions disclosures)

*Members need to note that the revised statements now comply with this SORP requirement.*

## Systems of internal control

- 22 As part of our audit, we consider the systems of accounting and financial control and report to you any material weaknesses identified. - We have nothing to report.
- 23 We have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed.
- 24 We have also reviewed whether the SIC has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit. There are no matters arising.

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## Use of resources

### Work performed

- 25 The Code requires us to reach a conclusion on whether we are satisfied that the Council has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources - the value for money conclusion. In meeting this responsibility, we review evidence that is relevant to the Council's corporate performance management and financial management arrangements across a range of criteria specified by the Audit Commission. Our work to support our conclusion included the following elements:
- data quality work; and
  - the best value performance plan.
- 26 Details of our conclusion for each of the criteria specified by the Audit Commission are set out in Appendix 5.

### Data quality work

- 27 We have reported our findings on the data quality review and officers are completing the action plan.

### Best value performance plan

- 28 Our work in respect of the Authority's 2006/07 Best Value Performance Plan (BVPP) was reported in the 2006 annual audit and inspection letter. No recommendations were made to the Audit Commission or the Secretary of State.

## Audit fee update

- 29 We reported our fee proposals as part of the Audit Plan for 2006/07. The table below reports the outturn fee against that plan.

**Table 2**

	<b>Plan 2006/07</b>	<b>Actual 2006/07</b>
Accounts and Statement on Internal Control	£47,007	£47,007
Use of Resources	£32,439	£32,439
Total Audit Fees	£79,445	£79,445
Grants certification work	Nil	Nil
Other work	Nil	£7,500

- 30 The details of the other work are as follows:
- 31 £6,000 - Police Use of Resources (PURE) work needed to give the formal PURE judgement over and above that required to meet our responsibilities under the Code of Audit Practice (para 24 in Audit Plan)- Supplementary Fee Letter has been provided to the Treasurer. £6,000.
- 32 £1,500 - Whole of Government Accounts consolidation package (para 24 in Audit Plan) - Supplementary Fee Letter will be issued shortly.

## Appendix 1 – The Audit Commission’s requirements in respect of independence and objectivity

- 1 We are required to communicate the following matters to those charged with governance:
  - the principal threats, if any, to objectivity and independence identified by the auditor, including consideration of all relationships between the Authority, directors and the auditor;
  - any safeguards adopted and the reasons why they are considered to be effective;
  - any independent partner review;
  - the overall assessment of threats and safeguards; and
  - information about the general policies and processes for maintaining objectivity and independence.
- 2 We are not aware of any relationships that may affect the independence and objectivity of the audit team and which are required to be disclosed under auditing and ethical standards.

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## Appendix 2 – Audit reports issued

**Table 3**

<b>Planned output</b>	<b>Planned date of issue</b>	<b>Actual date of issue</b>	<b>Addressee</b>
Audit plan	31 March 2006	23 May 2006	Police Authority
Revised Audit Plan	November 2006	12 December 2006	Audit and Strategy Committee
Interim audit memorandum	May 2007	to be amalgamated into the final accounts memorandum	Officers
Annual governance report	September 2007	18th September 2007	Police Authority
Opinion on financial statements	before 30 September 2007	before 30 September 2007	Police Authority members
Use of resources conclusion	before 30 September 2007	before 30 September 2007	Police Authority members
Final accounts memorandum	October 2007	October 2007	Officers
BVPP report	December 2006	December 2006	Police Authority
Data quality report	May 2007	May 2007	Audit and Strategy Committee
Partnership working LSP - Drugs misuse as a tracer	ERYC - LSP HULL - LSP	January 2007 January 2007	Audit and Strategy Committee
Annual audit letter	30 November 2007	30 November 2007	Police Authority

## Appendix 3 – Proposed auditor's report

### Independent auditors' report to the Members of Humberside Police Authority

#### Opinion on the financial statements

I have audited the financial statements and the police pension fund accounting statements of Humberside Police Authority for the year ended 31 March 2007 under the Audit Commission Act 1998. The financial statements comprise the Explanatory Foreword, Income and Expenditure Account, 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 financial statements and police pension fund accounting statements have been prepared under the accounting policies set out within them.

This report is made solely to Humberside Police Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

#### Respective responsibilities of the Treasurer and auditor(s)

The Treasurer's responsibilities for preparing the financial statements, including the police pension fund accounting statements, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial 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 financial statements and the police pension fund accounting statements 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 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 statement on internal control reflects compliance with CIPFA's guidance 'The statement on internal control in local government: meeting the requirements of the Accounts and Audit Regulations 2003' issued in April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

### **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 financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, 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 financial statements 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 financial statements.

### **Opinion**

In my opinion:

- the financial statements 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 2007 and its income and expenditure for the year then ended; and
- the police pension fund accounting statements present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial transactions of the police pension fund during the year ended 31 March 2007, and the amount and disposition of the fund's assets and liabilities as at 31 March 2007, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Michael Newbury  
 District Auditor  
 Kernel House  
 Killingbeck Drive  
 Killingbeck Leeds LS14 6UF

## **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 to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority’s assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

### **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. 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.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the authority’s best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

## **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 December 2006, 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 ending 31 March 2007.

## **Best Value Performance Plan**

I issued my statutory report on the audit of the authority's best value performance plan for the financial year 2006/07 on 21 December 2006. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

## **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.

Michael Newbury  
District Auditor  
Kernel House  
Killingbeck Drive  
Killingbeck  
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LS14 6UF

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## Appendix 4 – Management representation letter

Management representations are a useful means for auditors to gain assurance over the completeness and accuracy of information included in your financial statements. In line with ISA+580 Management Representations I wish to request that the Authority formally inform me of any issues that may affect the audit opinion on the 2006/07 annual accounts.

The aim is to ensure that the officers have collectively considered all material issues that could have a bearing on the audit opinion and drawn any to our attention. Therefore, I would be grateful if you could please provide the following representations.

- You acknowledge your responsibility for preparing annual accounts, in line with the Statement of Recommended Practice (SORP 2006), that show a true and fair view and for making accurate representations to us.
- Statement of Accounting policies disclosed in the accounts accurately reflects the accounting policies which the Authority has applied during 2006/7.
- There are no significant contingent liabilities other than those disclosed in Note 31 to the core statements in the annual accounts.
- There are no significant post balance sheet events other than those disclosed in Note 37 to the core statements in the annual accounts.
- All transactions undertaken by the Authority have been properly reflected and recorded in the accounting records, in accordance with the CIPFA Statement of Recommended Practice for Accounts and relevant financial reporting standards.
- There have been no:
  - irregularities, including fraud, involving management who have significant roles in the system of internal financial control
  - irregularities, including fraud, involving other employees that could have a material effect on the financial statements
  - communications from regulatory agencies concerning non-compliance with, or deficiencies in, financial reporting practices that could have a material effect on the annual accounts.
- There are no plans or intentions that may affect the valuation or classification of assets and liabilities.
- That the Authority have reviewed all buildings for impairments due to the recent flood, and plan to return damage buildings to the former state of repair.

- All material leasing arrangements that the Authority has entered into have been correctly reflected and disclosed in the annual accounts in accordance with SSAP21 (Accounting for Leases and Hire Purchase Contracts) and FRS5 (Reporting the Substance of Transactions).
- The Authority has not entered into and is not at an advanced stage of pursuing any Private Finance Initiative (PFI) transactions.
- In accordance with FRS 8, registers of interests are complete and up to date in respect of directors and key managers and there are no material transactions with related parties, other than those disclosed in Note 11 to the core statements in the annual accounts.
- There are no known instances of non-compliance with laws or regulations likely to have a significant effect on the finances or operations of the Authority.
- There are no significant pending litigations, proceedings or claims, other than those disclosed in the annual accounts.
- The provisions of the Authority, have been fairly stated and are in accordance with the principles outlined in FRS12 (Provisions, contingent liabilities and contingent assets)
- There are no other material stock balances other than those which have been properly recorded and disclosed in the annual accounts.
- Where the Authority has declared a stock balance in the 2006/7 financial statements, these balances have been valued and accounted for in accordance with SSAP 9- Stocks and Long-term Contracts.

If you are unable to provide representations in relation to any of the above points, please can you provide the relevant details? Such information will assist in the completion of our audit and provide assurance as to the accuracy and completeness of the Authority's annual accounts.

If, during the progress of the audit, I identify any additional issues upon which management representations are considered appropriate, then I will let you know at the earliest opportunity.

In dealing with this request, I would ask that your letter of representation be:

- formally acknowledged by the Authority at its meeting on 18 September 2007
- dated on, or shortly before, the date that I sign the audit opinion
- signed by you, and the Chair of the Police Authority confirming that you have made appropriate enquiries of other officials of the Authority.

If you have any queries or would like to discuss any of these points, please do not hesitate to contact me.

## Appendix 5 – Value for money conclusion

- 1 The Audit Commission has published, in accordance with the Code of Audit Practice, 12 criteria on which auditors are required to reach a conclusion on the adequacy of an audited body’s arrangements for economy, efficiency and effectiveness in its use of resources.

Code Criteria	Description	VFM Conclusion
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	Adequate
2	The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	Adequate
3	The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	Adequate
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	Adequate
5	The body has put in place arrangements to maintain a sound system of internal control.	Adequate
6	The body has put in place arrangements to manage its significant business risks.	Adequate
7	The body has put in place arrangements to manage and improve value for money.	Adequate
8	The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	Adequate
10	The body has put in place arrangements for managing performance against budgets.	Adequat

<b>Code Criteria</b>	<b>Description</b>	<b>VFM Conclusion</b>
11	The body has put in place arrangements for the management of its asset base.	Adequate
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	Adequate

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