

Annual Audit Letter

Humberstone Police

Audit 2008/09

November 2009



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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.
-

Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the 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.

Audit Opinion

- 1 I issued an unqualified audit opinion on your financial statements and a qualified value for money conclusion on 29 September 2009.

Financial Statements

- 2 The draft financial statements were found to be free from material error or misstatement.

Use of Resources

- 3 I have assessed your overall Use of Resources score as a 2. I bring to your attention the score of 1 for the Managing Finances theme, which represents a failure to meet minimum standards across that theme.

4

Table 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£51,207	£51,207	-
Value for money	£30,464	£30,464	-
Total audit fees	£81,671	£81,671	-
Non-audit work	£9,308	£0	£,9308
Total	£90,979	£81,671	-

Impact of the economic downturn

- 5 The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. The impact on treasury management strategies has been immediate, but there are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes.
- 6 There are further challenges for policy priorities where patterns of service provision are changing and these can be relevant to the audit. As part of my responsibility I have reflected on the wider environment, specific issues and risks and the Authority's response. Where specific issues require bringing to your attention, I have raised these within the appropriate section of this report.

Actions

- 7 Recommendations are shown within the body of this report and have been agreed with officers.

Independence

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

Financial statements and annual governance statement

The Authority's financial statements and annual governance statement are an important means by which the Authority accounts for its stewardship of public funds.

Significant issues arising from the audit

- 9 I did not identify any material errors in the financial statements.
 - 10 I found that you, in considering the impact of risks relating to the economic downturn, accounted appropriately for balances held with Icelandic banks and ensured that the financial statements properly reflected the general fall in asset values.
-

Material weaknesses in internal control

- 11 I did not identify any material weaknesses in the design or operation of internal controls that might result in a material error in your financial statements of which you are not aware.
-

Accounting Practice and financial reporting

- 12 I considered the qualitative aspects of your financial reporting.
 - 13 I found that:
 - accounting for provisions is not always consistent with the requirements of Financial Reporting Standard 12 (FRS12). Specifically, the insurance provision of £700k does not represent a liability at the balance sheet date;
 - arrangements for ensuring your income and expenditure are correctly matched to the period to which they relate should be improved. The key areas to be addressed are the recognition of year end accruals and accounting for manual receipts and payments; and
 - there were a number of instances where disclosures within the Statement of Accounts was not fully compliant with the requirements of the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008.
-

Value for money and use of resources

I considered how well the Authority is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Authority put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 14** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 15** Your use of resources theme scores are shown in Table 2 below. These are the final scores following completion of the use of resources national quality assurance process. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 1.

Table 2 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	1
Governing the business	2
Managing resources	2

Value for money and use of resources

Significant issues arising

- 16** Positive aspects of your financial management arrangements include:
- having an understanding of your costs, the main factors that influence them and how they impact on performance. Comparator and trend analysis is used to review and challenge achievement of Value for Money;
 - being on track to meet 2008-11 cashable efficiency targets;
 - making budget information available to budget holders on a timely basis;
 - preparing accounts which meet statutory requirements, financial reporting standards and present fairly the financial performance and position, and;
 - publishing reports that provide an understandable, objective and balanced assessment of your performance.
- 17** Key financial decisions are based on unreliable financial forecasts, resulting in the outcome of an unplanned material £6.183m year end surplus. In addition, your Medium Term Financial Strategy includes plans to utilise reserves which do not appropriately consider the risks of recurring material variances from budget.
- 18** You had investments of £5.57m held with Icelandic banks at the time of their collapse, of which the audited 2008/09 financial statements show that an estimated £3.7m is recoverable. Notwithstanding the fact that the monies lost will not be available to provide policing services to the public of Humberside, there is no significant impact on overall financial standing given the £39m revenue reserves balance as at the 31 March 2009.
- 19** The investments with the Icelandic banks were made in accordance with your treasury management arrangements in force at the time the investments were made, which were adequate. Whilst action has been taken to restrict the scope of investments following risks identified in the investment environment, you have yet to formally agree updated treasury management arrangements.
- 20** Your arrangements to govern the business are adequate. Whilst there is insufficient evidence of positive, planned outcomes to show that minimum standards have been exceeded across the full scope of these Key Line of Enquiry themes you:
- have a clear vision of intended outcomes for local people which shapes your commissioning and procurement;
 - involve stakeholders in commissioning services, and seek to improve the customer experience, quality and Value for Money of services through service redesign, making effective use of IT;
 - evaluate different options for procuring services and supplies, and review the competitiveness of services to achieve value for money while meeting wider objectives;
 - produce relevant and reliable data and information to support managing performance;
 - promote and demonstrate the principles of good governance; and

- have a system of internal control and risk management which is embedded within the Force. Your own risk management arrangements are being developed to ensure risks are identified and managed in a coherent manner.

21 Your arrangements for managing resources are adequate because you:

- direct your people to meet current and future needs and deliver value for money. The recruitment of an HR professional at Assistant Chief Officer level demonstrates the commitment to delivering HR responsibilities;
- apply nationally recognised training arrangements for PCSOs and future leaders within the area of neighbourhood policing, and have recognised the need to improve on succession planning and the provision of clear development opportunities through the PDR process;
- demonstrate a willingness to re-engineer the workforce to ensure more efficient delivery of services;
- adopted processes to ensure compliance with equalities legislation and duties and there is evidence that you recognise weaknesses in recruitment, and;
- have absenteeism levels that have been, and continue to be, amongst the best nationally.

Recommendation

R1 The Authority should implement the recommendations contained in my detailed use of resources report and regularly monitor progress on implementing the recommendations at Finance Committee meetings.

VFM Conclusion

22 I assessed your arrangements to secure economy, efficiency and effectiveness using criteria specified by the Audit Commission. My conclusions on each of the areas are set out in Appendix 1.

23 I issued a qualified conclusion stating that I am satisfied that, in all significant respects, the Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009 except that it did not put in place adequate arrangements for:

- planning its finances effectively to deliver its strategic priorities and secure sound financial health; and
- ensuring that its financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people.

Closing remarks

- 24** The issues raised in this letter have been discussed with the Chief Executive and the Deputy Chief Executive and Treasurer. I will present this letter at the Finance Committee on 15 December 2009 and will provide copies to all Authority members.
- 25** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued during the year.

Table 3

Report	Date issued
Audit Plan 2008/09	10 June 2008
Annual Governance Report 2008/09	29 September 2009
Use of Resources Report 2008/09	3 November 2009

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- 26** The Authority has taken a positive and constructive approach to our audit. I wish to thank Members and officers for their support and co-operation during the audit.

Mark Kirkham
District Auditor
November 2009

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	Annual Audit Letter 2008/09 Recommendations					
7	The Authority should implement the recommendations contained in my detailed use of resources report and regularly monitor progress on implementing the recommendations at Finance Committee meetings.	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.

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