

Annual governance report

Humberside Police Authority

Audit 2010/11

DRAFT

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

Contents

Key messages	3
Audit opinion	3
Financial statements	3
Value for money	4
Independence	4
Next steps	5
Financial statements	6
Value for money	10
Report by exception	Error! Bookmark not defined.
Appendix 1 Draft independent auditor's report to Members of Humberside Police Authority	12
Appendix 2 Amendments to the draft financial statements	15
Appendix 3 Unadjusted misstatements in the financial statements	20
Appendix 4 Draft letter of representation	22
Appendix 5 Glossary	25

Ladies and Gentlemen

2010/11 Annual Governance Report

I am pleased to present the results of my audit work for 2010/11.

I discussed a draft of my report with the Chief Executive and Deputy Chief Executive & Treasurer on ***** 2011 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);
- note 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); and
- approve the letter of representation on behalf of the Authority before I issue my opinion and conclusion (appendix 4);

Yours faithfully

Mark Kirkham
District Auditor

Date

Key messages

This report summarises the findings from the 2010/11 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.

Table 1: **Key messages - financial statements**

Financial statements	Results	Page
Unqualified audit opinion	Yes	6
Important weaknesses in internal control	Yes	7

Table 2: **Key messages - value for money**

Value for money		
Proper arrangements to secure value for money	Yes	10

Audit opinion

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

Financial statements

2 I have identified three material misstatements which management have agreed to adjust.

3 The adoption of International Accounting Standard 19 (IAS19), as part of the wider implementation of IFRS, has resulted in a change in accounting policy in respect of police injury award benefits. This change gave rise to a £36.17m liability for the Authority which should have been recognised as a prior period adjustment. The liability was incorrectly recognised as an in year transaction in your draft financial statements and appropriate adjustments have been made.

4 The disclosure of financial liabilities within the draft financial instruments note was not fully consistent with the definition of financial instruments under IAS39. Adjustments have been made to both remove balances included in error, and add a balance omitted in error. There is no impact on the financial position of the Authority.

5 Three adjustments have been made to the disclosure of Capital charges & impairment of assets within Note 1 Summary spending details. Whilst not material on an individual basis, in aggregate they result in a material £4.268m adjustment to the balance disclosed in your draft financial statements.

Value for money

6 I expect to issue an unqualified value for money conclusion stating that I am satisfied you made proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

Independence

7 I can confirm that I have complied with the Audit Practice Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

8 The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2010/11.

DRAFT

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.

9 I ask the Police Authority 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

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

10 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.

Key areas of judgement and audit risk

11 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Table 3: **Key areas of judgement and audit risk**

Issue or risk	Finding
Impact of economic climate and 2010 Comprehensive Spending Review (CSR)	Business risks associated with this issue have not resulted in material errors or misstatements within the accounts.
Implementation of International Financial Reporting Standards (IFRS)	Testing identified both material and non material errors but your revised financial statements present a true and fair view of your financial position.
Replacement of key finance officers responsible for producing the financial statements	The replacement of key officers has not resulted directly in any material errors or misstatements within the financial statements.
The degree of estimation uncertainty with regards to actuarial	There are processes and controls in place to minimise the risk of

Issue or risk	Finding
pension fund valuations	material error or misstatement in the actuarial pension fund valuations.

Errors in the financial statements

12 I identified three material errors within the financial statements.

13 The adoption of International Accounting Standard 19 (IAS19), as part of the wider implementation of IFRS, has resulted in a change in accounting policy in respect of police injury award benefits. This change has given rise to a £36.17m liability which should be recognised as a prior period adjustment. The liability was incorrectly recognised as an in year transaction in the draft financial statements and has been adjusted for appropriately.

14 The Financial Instruments note included £8.651m of financial liabilities that did not meet the definition of a financial instrument in IAS39. £2.953m was excluded from the same analysis in error. The net effect is a £5.698m downward adjustment but affects the disclosure note only and has no impact on your main financial statements.

15 The balance of Capital charges & impairment of assets within Note 1 Summary spending details was disclosed as £9.844k. I identified the following three errors in the draft disclosure:

- £1.584m overstatement due to double counting of year end journal entries;
- £0.677m overstatement arising from incorrect treatment of surplus/deficit on revaluation of non current assets; and
- £2.007m overstatement due to incorrect accounting for capital grant income.

16 The total overstatement in your accounts is material at £4.268m.

17 I identified further errors which were not material but are considered non-trivial. I have summarised these errors within appendix 2 and management decided to deal with these matters by correcting your accounts.

18 I identified three non-material, non-trivial errors which have not been corrected. The errors are:

- The disclosure of Note 47 Actuarial gains and losses should show an analysis of the current period and the previous four periods as required by IAS19. The draft disclosure shows only the current period and the previous three periods. This disclosure does not affect the audit opinion.
- £1.8m of Property, Plant & Equipment (PPE) additions were double counted in the 2009/10 financial statements. I reported the issues in my 2009/10 Annual Governance Report as an unadjusted error and management agreed to take corrective action to address the error in the 2010/11 revaluation exercise. However, not all assets with an element of double counting were included in the revaluation exercise, and a

£0.759m overstatement in the valuation of PPE remains in the 2010/11 financial statements.

- The balance sheet includes £0.366m of cash which has been seized and banked under the Proceeds of Crime Act (2002), with a corresponding creditor balance. There is also an estimated £0.400m of seized cash being held in secure police custody which is not recorded in the financial statements. The accounting treatment of cash seizures is therefore inconsistent. As the cash relates to third party monies, it should all be excluded from the financial statements.

Important weaknesses in internal control

19 I identified one important weakness in internal control. My testing of payroll system controls showed that whilst support staff overtime claims were populated with the name, signature and four-digit code of a supervisor, there was no check that these details were verified prior to payment of the claim. This increases the risk of invalid claims being paid.

20 This issue has been highlighted by recommendation four of Internal Audit's payroll final report dated August 2011 which has been presented to management. I do not propose to issue a further recommendation.

21 My audit identifies only those weaknesses that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

Quality of your financial statements

22 I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statement disclosures and Table 4 contains issues I want to raise with you.

Table 4: **Accounting practices, policies and estimates and financial statement disclosures**

Issue	Finding
First time adoption of IFRS	The draft financial statements did not include opening 2009/10 comparative balance sheet figures as required by regulations.
Presentational issues	Comparative figures were not presented in a consistent manner throughout the draft financial statements. The sign convention used for income and expenditure was not consistent throughout the draft

Issue	Finding
Note 2 Note of Reconciling Items for the Statement of Movement on the General Fund Balance	financial statements. The draft note had been carried forward from the previous format of accounts and had not been tailored to IFRS requirements.

Other significant matters relevant to the financial reporting process

23 The Notice of Appointment of the Date for Exercise of Public Rights was advertised on the Authority website and in the local press on 27 June 2011. The wording of the notice did not refer to the right of any interested party to inspect the accounts and supporting information, limiting this to local electors. The notice was republished on 23 August 2011. The impact is that the appointed date on or after which local government electors for the Authority's area may exercise their rights under Section 15 and Section 16 of the Audit Commission Act 1998 has changed to 4 October 2011.

Letter of representation

24 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.

DRAFT

Value for money

I am required to conclude whether the Authority put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

25 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission.

26 I intend to issue an unqualified conclusion stating that I am satisfied you made proper arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my draft report.

Table 5: **Value for money criteria and our findings**

Criterion	Findings
<p>1. Financial resilience The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11: The organisation has systems and processes to manage financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The Authority understands its key financial management challenges. Savings requirements are identified within the Medium Term Financial Plan and progress is achieved through the CSR2015 programme and Integrated Business Management (IBM) model. Management of reserves is incorporated into medium term financial planning. Financial monitoring information is timely and provides a reliable basis for clear, informed financial management decisions to be made. The monitoring process has been supported by changes to budget management arrangements.</p>
<p>2. Securing economy efficiency and effectiveness The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2010/11:</p>	<p>Business change is managed through the IBM model, which considers aspects of economy, efficiency and effectiveness alongside each other. This includes effective reviews of organisational priorities and key financial targets, and IBM links to other initiatives such as the voluntary early redundancy scheme to target the most efficient methods of service delivery. Regional collaboration is being considered as a means of achieving savings and efficiencies in 'back office' functions.</p>

Criterion	Findings
The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.	

DRAFT

Appendix 1 Draft independent auditor's report to Members of Humberside Police Authority

Opinion on the Authority and Pension Fund accounting statements

I have audited the accounting statements and the police pension fund accounting statements of Humberside Police Authority for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the 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. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Treasurer and auditor

As explained more fully in the Statement of the Treasurer's Responsibilities, the Treasurer is responsible for the preparation of the Authority's Statement of Accounts, including the police pension fund accounting statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority and the Pension Fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Humberside Police Authority's affairs as at 31 March 2011 and of its income and expenditure for the year then ended;
- give a true and fair view of the financial transactions of the police pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on Authority's 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 review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and

- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Humberside Police Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

Certificate

I certify that I have completed the audit of the accounts of Humberside Police Authority in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Mark Kirkham
Officer of the Audit Commission

Audit Commission
3 Leeds City Office Park
Holbeck
Leeds
West Yorkshire
LS11 5BD

7 October 2011

Appendix 2 Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities.

Table 6:

Adjusted mis-statement	Comprehensive income and expenditure statement (CIES)		Balance sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
Description	Account entry and value		Account entry and value	
£6.183m of estates overhead costs were apportioned to service headings on the face of the CIES using an inappropriate base. Adjustments affect all service headings, with the largest impact being a £1.632m reduction in Local Policing expenditure. There are no material impacts on individual service heading accounting entries and the net movement within CIES cost of services is £nil.	Service headings £6,183	Service headings £6,183	No impact	No impact
As part of the IFRS restatement exercise, £2.164m of 2009/10 capital grant income was apportioned to service headings on the face of the CIES when it should have been disclosed as part of Taxation and non-	2009/10 Restated Service headings £2,164	2009/10 Restated Taxation and non specific grant income £2,164		

Adjusted mis-statement	Comprehensive income and expenditure statement (CIES)		Balance sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
Description	Account entry and value		Account entry and value	
specific grant income.				
£0.748m was credited to the CIES surplus/deficit on revaluation of non-current assets. This entry should have been a debit. In addition, £0.071m of the initial credit was posted in error as it relates to writing back of revaluation reserve balances and should have been posted to the Capital Adjustment Account as a debit. There were two compensating errors of £0.677m debit entries posted to CIES cost of services impairments and MiRS Movements in General Fund balance	Surplus/deficit on revaluation of non-current assets £1,425	Service Headings £677	Unusable reserves £71	Usable reserves £677
The CIES cost of services includes an overstatement in impairments of non-current assets of £1.584m. A compensating error was disclosed in the MiRS General Fund balance		Service Headings £1,584	Useable reserves £1,584	
The CIES includes total debit balances of £2.007m, relating to capital grant expenditure incurred, apportioned across		Service Headings £2,007	Useable reserves £2,007	

Adjusted mis-statement	Comprehensive income and expenditure statement (CIES)		Balance sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
Description	Account entry and value		Account entry and value	
services. This debit entry was posted in error as it should have been debited to the MiRS General Fund balance.				
The Police Pensions Fund Account includes £40,000 of pensions payable within commutations and lump sum retirement benefits in error.	Police Pension Fund Account: Benefits Payable - pensions £40	Police Pension Fund Account: Benefits Payable - commutation and lump sum retirement benefits £40		
Various entries within Note 13 Senior Officers' and Relevant Police Officers' Emoluments did not agree directly to payroll information. Whilst amendment was required due to the sensitivity of the disclosure, the maximum single error was less than £3,000.	No impact	No impact	No impact	No impact
Note 14 Related Party Transactions omitted a £26,000 disclosure relating to transactions with a related party of a senior officer of the Police Authority. The officer had declared the relationship and was not involved in the authorisation of the	No impact	No impact	No impact	No impact

Adjusted mis-statement	Comprehensive income and expenditure statement (CIES)		Balance sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
Description	Account entry and value		Account entry and value	
transactions.				
Note 3 Operating segments understates 2009/10 support services expenditure by £1.710m due to omission of relevant expenditure figures.	No impact	No impact	No impact	No impact
Note 55 sub note 4 Cash and Cash Equivalents overstates the adjustments to both cash and cash equivalents and short term investments by £0.860m. This represents accrued interest on short term investments incorrectly accounted for as cash and cash equivalents.			08/09 Restated Cash and Cash Equivalents £860	08/09 Restated Short Term Investments £860
Note 54 Financial Instruments overstates the carrying amount of financial assets at 31 Mar 11 by £2.551m due to inclusion of non financial instruments within the disclosure.	No impact	No impact	No impact	No impact
Note 55 sub note 1 Short-term Accumulating Compensated Absences shows a £395,000 debit adjustment made to the CIES Cost of Services. This should have been a credit therefore the impact on the 09/10		2009/10 Restated CIES Cost of Services £790	2009/10 Restated Accumulated Absences Account £790	

Adjusted mis-statement	Comprehensive income and expenditure statement (CIES)		Balance sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
Description	Account entry and value		Account entry and value	
CIES was an overstatement of net expenditure of £790,000				
The Cash Flow Statement includes £277,000 of cash receipts relating to asset disposals within the adjustment for non-cash movements. These should be disclosed within the adjustments for items that are investing and financing activities	No impact	No impact	No impact	No impact
Note 1 Restated 2009/10 expenditure incorrectly disclosed £128,000 of depreciation within pay and other employment costs.	No impact	No impact	No impact	No impact
The Movement in Reserves Statement (MiRS) includes various disclosures which require amendment as a result of issues identified above.	No impact	No impact	No impact	No impact

Appendix 3 Unadjusted misstatements in the financial statements

I identified the following misstatements during my audit, including uncorrected misstatements brought forward from earlier years, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements. If you decide not to amend, please tell me why in the representation letter. If you believe the effect 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 7:

Unadjusted mis-statement	Comprehensive income and expenditure statement		Balance sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
Description	Account entry and value		Account entry and value	
The disclosure of Note 47 Actuarial gains and losses should show an analysis of the current period and the previous 4 periods as required by IAS19. The draft disclosure shows only the current period and the previous 3 periods.	No impact	No impact	No impact	No impact
£1.8m of Property, Plant & Equipment (PPE) additions were double counted in 2009/10. Corrective action	Apportioned across Cost of Services Gross Expenditure, maximum impact £759			Property, Plant & Equipment £759

Unadjusted mis-statement	Comprehensive income and expenditure statement		Balance sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
Description	Account entry and value		Account entry and value	
<p>was taken via the 2010/11 revaluation exercise, but PPE values remain overstated by up to £0.759m as not all errors were rectified.</p>				
<p>The balance sheet discloses £0.366m of cash seized and banked under the Proceeds of Crime Act (2002). An additional estimated £0.400m of cash seizures is being held securely on police premises, and has not been recognised on the balance sheet. The treatment of cash seizures is therefore inconsistent within the financial statements. As the cash relates to third party monies, it should be omitted from the financial statements altogether.</p>			<p>Dr Short term creditors £366</p>	<p>Cr Cash and cash equivalents £366</p>

Appendix 4 Draft letter of representation

To:
Mark Kirkham
Audit Commission
3 Leeds City Office Park
Holbeck
Leeds
West Yorkshire
LS11 5BD

Humberside Police Authority - Audit for the Year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers 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 2011. All representations cover the Authority's accounts and Police Pension Fund accounts included within the financial statements.

Compliance with the statutory authorities

I have fulfilled 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, which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in Appendix 3 of the 2010/11 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 Authority and the reasons for not correcting these items are as follows;

- reason 1 etc;
- reason 2

Supporting records

All relevant information and access to persons within the entity has 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 financial statements.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

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;

- 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; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other 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.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

For each assumption, I confirm:

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the process;
- the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require/do not require adjustment to accounting estimates and disclosure included within the financial statements.

Related party transactions

I confirm that I have disclosed the identity of Humberside Police Authority related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Comparative financial statements

Prior period financial statements have been restated as a result of the implementation of International Financial Reporting Standards (IFRS)

Written representations previously made in respect of the prior period remain appropriate.

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

DRAFT

Appendix 5 Glossary

Annual governance statement

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

Audit closure certificate

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 financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my 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; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality (and significance)

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

'Significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Value for money conclusion

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 based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.