

Annual Audit Letter

Humberside Police Authority

Audit 2009/10

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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Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements (pages 4 to 5); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 8).**

I have included only significant recommendations in this report. The Authority has accepted these recommendations.

Audit opinion and financial statements

1 I issued an unqualified audit opinion on your 2009/10 financial statements.

Value for money

2 I issued an unqualified value for money conclusion on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

3 You have addressed the key weaknesses that resulted in last year's qualified value for money conclusion and have demonstrated improvements in arrangements and outcomes.

Current and future challenges

4 National reports issued by inspectorates this year note the police service has reduced crime and increased public confidence during a time of expansion. In a new era of austerity with reduced funding, the reports challenge both police authorities and constabularies to review current ways of service delivery to meet public expectations in future years.

5 The recent comprehensive spending review confirmed that central government police funding will reduce by 20 per cent in real terms by 2014/15. In addition, Police Authorities are faced with abolition from 2012 following the government announcement to introduce directly elected Police and Crime Commissioners.

6 While your forecasts take account of some aspects of the national picture, some uncertainties remain. The Authority has already seen in year reductions of £1.8 million to its 2009/10 revenue budget, and scenario planning is being undertaken to forecast the medium term impact of budget reductions arising from the comprehensive spending review.

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.

Overall conclusion from the audit

7 I gave an unqualified audit opinion on your financial statements for 2009/10 on 28 September 2010.

Key issues from the financial statements

Material misstatement

8 I identified a single material misstatement within the financial statements. Finance officers' interpretation of technical accounting guidance led to £5.3 million of unamortised government grants deferred being written back to the I&E account in year, in addition to the income required to match depreciation of grant funded assets. My interpretation is that only unamortised balances of government grants deferred which cannot be reasonably matched to corresponding assets should be written out during 2009/10. Your financial statements were amended to show the £5.3 million balance held in the government grants deferred account at 31 March 2010.

9 Under the International Financial Reporting Standards (IFRS) accounting regime to be introduced from 2010/11 onwards I expect the treatment of government grants deferred to be consistent with the original treatment within the draft accounts. There will be no net impact on the financial standing of the Authority.

Balances held with Icelandic banks

10 Your accounts record balances held with Icelandic banks following their collapse in October 2008 and ongoing administration. Most recent estimates of the total recoverable amounts are 85 per cent from Heritable Bank Plc (£4.57 million investments at time of collapse) and between 75 and 84 per cent from Kaupthing Singer & Friedlander Ltd (£1 million investment at time of collapse).

Significant weaknesses in internal control

11 I found that individual finance officers were able to prepare, authorise and input the same year end journals. This increases the risk of material accounting adjustments being posted in error to the general ledger, either deliberately or inadvertently.

12 Following the implementation of the new payroll system during 2009/10, monthly payroll to general ledger control account reconciliations have not been completed on a timely basis. This increases the risk that the general ledger does not accurately reflect the transactions processed through the payroll system.

13 An action plan has been agreed to address these weaknesses.

Implementation of International Financial Reporting Standards (IFRS)

14 From next year (2010/11) your financial statements will need to be prepared under IFRS. Implementation of IFRS is a major challenge requiring substantial preparatory work. I am pleased to note that officers have made good progress that includes:

- restating the 2009/10 opening balance sheet position and preparing restated 09/10 accounts; and
- ensuring that information systems are in place to provide the relevant details to inform IFRS disclosures.

15 I will continue to monitor your progress and will undertake a review of the restated 2009/10 accounts once completed.

Value for money

I considered whether the Authority is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money conclusion.

2009/10 use of resources assessments

16 At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

17 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

18 I report the significant findings from the work I have carried out to support the value for money conclusion.

Value for money conclusion

19 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission.

20 I found that you made good progress in addressing the weaknesses highlighted in my 2008/09 Use of Resources report, in particular:

- Improvements in budget forecasting arrangements allowed financial resources to be better directed to service priorities, for example, through reallocating underspends via the Chief Constable's Performance Fund, and reduced the risk of unexpected year end variances.
- Authority specific risk management arrangements were strengthened. Whilst it was too early to document the achievement of planned outcomes during 2009/10, progress was shown in improving the arrangements to identify, assess and manage Authority specific risks.

- The high level of engagement and communication between officers and the audit team enabled me to gain an understanding of key issues in an efficient manner. Whilst we will no longer undertake work to inform a scored use of resources judgement, I hope to maintain the relationships in order to form the basis of future value for money conclusion work. I also wish to express my thanks to the officers involved for responding in this way.

21 Table 1 below summarises the adequacy of your arrangements against the 2009/10 KLOE criteria.

Table 1: **Assessment of value for money arrangements against 2009/10 KLOE criteria**

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Risk management and internal control	Yes
Managing resources	
Natural Resources	Yes
Workforce	Yes

2009/10 UoR assessment work up to May 2010

22 I issued an unqualified conclusion stating that I was satisfied the Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

23 I will issue a separate report containing my key findings and opportunities for improvement.

Approach to local value for money work from 2010/11

24 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money audit work. The Commission aims to introduce a new, more targeted and better value approach to our local value for money audit work.

25 My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

26 I will determine a local programme of value for money audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I am no longer required to provide an annual scored judgement relating to my local value for money audit work. Instead I will report the results of all my local value for money audit work and the key messages for the Authority in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

Economic downturn and pressure on the public sector

27 The last few years have seen the United Kingdom enter a significant economic recession on the back of a global economic crisis triggered by the collapse of several high-profile international banks.

28 The effect locally is an increasing demand for public services at a time of reduced levels of central government funding. The recent comprehensive spending review confirmed that central government police funding will reduce by 20 per cent in real terms by 2014/15. The government will cut almost two thirds of the funding by 2012/13.

29 The impact of the recession and the comprehensive spending review will present a challenge to the Authority for the coming years in preserving services to local residents, keeping a sound financial position and delivering value for money.

Audit Commission, Her Majesty's Inspectors of Constabulary (HMIC) and Wales Audit Office (WAO) National Reports

30 In the last six months, inspectorates have issued four national reports which look at the future of value for money and governance in policing (Appendix 2).

31 The reports deal with different topics, covering achieving value for money with limited funding and reporting on the interim results from specific inspections of police authorities. All four reports, however, challenge both police authorities and constabularies to review current ways of service delivery to meet public expectations in future years.

32 The reports note the police service has reduced crime and increased public confidence during a time of expansion. In the era of austerity with reduced funding, the reports challenge authorities and constabularies to:

- show local strategic leadership of reform, taking decisive action to bridge funding gaps;
- redesign police services by using a longer-term transformational approach linking spending to its assessment of threat of serious criminality, the harm crime causes and the risks of day-to-day crime;
- challenge effectively all spending and efficiency targets, not just of support but operational functions, including the way constabularies use front-line officers;
- devise medium term plans geared to the cuts required, supported by deliverable plans;

- save up to £1 billion (12 per cent of government funding), by better workforce management, improved productivity, merging business support, better procurement and working with other constabularies and partners; and
- prioritise visible policing over all the police do to achieve savings of beyond 12 per cent of government funding.

Police reform

33 The government has announced its plan to abolish police authorities and introduce directly elected Police and Crime Commissioners (PCCs) by May 2012. PCCs will cover the police force area and hold Chief Constables to account for the Constabulary's performance. A Police and Crime Panel is to have overview and scrutiny powers over the Commissioner.

34 The national reports on the inspections of police authorities (Appendix 2) found that most were performing adequately, but in general were not:

- taking a strategic lead in deciding the longer term shape of policing for their area; and
- ensuring a clear and sustained focus on value for money and collaboration.

35 Replacing police authorities with PCCs raises several risks relevant to these key themes of leadership and value for money for authorities which you will need to consider.

Next steps

36 The national reports recommend that authorities and constabularies should test their own arrangements against the report to assess if they are delivering value for money and meeting the characteristics displayed by those police authorities that are performing well.

37 I will continue to review the Authority and Force responses to the tighter fiscal climate as part of my 2010/2011 value for money conclusion.

Closing remarks

38 I have agreed this letter with the Chief Executive and the Deputy Chief Executive and Treasurer. I will present this letter at the Finance Committee on 14 December 2010 and will provide copies to all board members.

39 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued during the year.

Report	Date issued
Audit Fee Letter	February 2009
Annual Governance Report	September 2010
Value for money conclusion - Memorandum of findings	November 2010

40 The Authority has taken a positive and helpful approach to our audit. I wish to thank the Humberside Police Authority and Humberside Police Force staff for their support and cooperation during the audit.

Mark Kirkham
District Auditor
November 2010

Appendix 1 – Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£54,665	£54,655	£0
Value for money	£31,190	£31,190	£0
Total audit fees	£85,855	£85,855	£0

Appendix 2 - National reports

In the last six months, the Audit Commission, Her Majesty's Inspectors of Constabulary (HMIC) and the Wales Audit Office (WAO) have issued four national reports which look at the future of value for money and governance in policing.

Value for money

- Sustaining value for money in the police service (Audit Commission, HMIC and WAO: July 2010).
- Valuing the Police: Policing in an age of austerity (HMIC: July 2010).

Police Authority inspection

- Learning Lessons: An overview of the first ten joint inspections of police authorities (HMIC and Audit Commission: March 2010).
- Police governance in Austerity: thematic report into the effectiveness of police governance (HMIC: October 2010).

Appendix 3 – Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Authority on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

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 money, people and time.

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Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946