

# Annual Audit Letter

Cleveland Police Authority

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.
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# 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.**

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## Audit opinion

- 1 We issued an unqualified opinion on the financial statements on 30 September 2009.
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## Financial Statements

- 2 The financial statements were prepared to a good standard well in advance of the statutory deadline of 30 June and were supported by comprehensive working papers.
  - 3 There were six amendments made to the financial statements during the audit, the issues were technical in nature and did not affect the overall financial position of the authority. The amendments related to pension benefit adjustments, issues relating to the dissolution of the North East Air Support Unit and disclosure of additional information in the notes to the accounts.
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## Use of resources

- 4 This was the first year of the new Use of Resources assessment, with a more challenging scope and emphasis on the extent to which the Authority's processes and arrangements are being used systematically to deliver better outcomes and improved value for money. As such it is not possible to make comparisons between the current year and previous year's scores. Overall we assessed the Authority at level 2, performing adequately in its use of resources; performing well in managing finances and performing adequately in governing the business and managing resources.
  - 5 The Authority and Force have been successful in delivering better outcomes with reduced crime levels and increased public satisfaction. There are some areas where arrangements still need further development particularly in strengthening controls over partnership working.
  - 6 The economic downturn and banking crisis are 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, including pressures on income streams. There are further challenges for policy priorities where patterns of demand for services are changing.
  - 7 The Authority has responded to the challenging economic climate, reviewing the medium term financial plan and assessing what action can be taken to respond to possible restrictions in funding. Progress is being monitored by members.
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- 8 Based on my use of resources work I issued an unqualified value for money conclusion for 2008/09 stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.

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### Comprehensive Area Assessment

- 9 Comprehensive Area Assessment (CAA) is a new mechanism for assessing locally delivered public services. CAA brings together judgments from the Audit Commission, Care Quality Commission, HM Inspectorates of Constabulary, Prisons and Probation, and Ofsted into one coordinated view of public services in an area. The primary focus of CAA is on the place and not organisations, and on outcomes achieved for the community rather than the process.
- 10 The Authority's use of resources assessment will inform the area assessment element of CAA and help to illustrate how well public services in the area are addressing their local priorities. The joint assessments for the four Teesside areas will be published on the CAA website. The first reporting of the findings of CAA will be published on 10 December 2009.

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### Audit fees

- 11 The fee for undertaking our audit in 2008/09 was £84,700, which was in line with the proposed fee. There was additional fee paid for the Audit and Internal Control Panel workshops. More detail on fees, including comparatives for 2007/08, are shown in Appendix 1.

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### Actions

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

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### Independence

- 13 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.**

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## Significant issues arising from the audit

- 14 Following completion of our audit work on the Authority's financial statements, I issued an unqualified opinion. The following errors were amended in the accounts.
- The pension fund accountant wrote to the Authority on 21 September 2009 informing them of an error in the interest rate used by the actuary to calculate pension fund interest costs. The impact of the error increased charges to the income and expenditure account by £7.8 million which is then reversed out through the statement of total recognised gains and losses to avoid impact on Council Tax.
  - Unpaid pension benefits associated with police officer retirements between 2006 and 2007 of £1.1 million which had been omitted were added to the pension fund net asset statement.
  - The helicopter was classified as a non-operational asset to reflect the end of the consortium arrangement. Our opinion is that although the helicopter ownership has changed it remained in operation and £486,000 was reclassified from non-operational assets to operational assets.
  - The Authority made changes to the brought forward figures from last year's audited accounts, which is not permitted in Accounting Standards unless the issues are material. The changes to the opening balances were reversed back and pension fund reserve and liability and the income and expenditure account balance were adjusted by £590,000 and £20,000 to reflect changes to pension fund accounting in 2008/09.
  - The actuary uses estimated investment values to allow them to provide the pension fund information to the Police Authority and other admitted bodies as early as possible. The pension fund auditor identified a difference between the estimated and actual investment values at the year end, and an adjustment of £96,000 was made decreasing the pension fund deficit by this amount.
  - The accounts should follow the Statement of Recommended Practice (SoRP). Additional disclosures were made to the accounts where information had not been included in the notes or where there was insufficient detail.

- 15 The North East Air Support Unit consortium arrangement came to an end on 31 March 2009 and negotiations are ongoing between the Police Authorities involved to confirm the final financial settlement on this. The Authority has reflected the dissolution using the most accurate information available at the time and a separate assurance that this is not expected to be significantly different was included in the letter of representation.
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### Material weaknesses in internal control

- 16 We have not identified any material weaknesses in your internal control to bring to your attention.
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### Accounting Practice and financial reporting

- 17 I considered the qualitative aspects of your financial reporting and have not identified any significant issues to raise with you.
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### International Financial Reporting Standards

- 18 The Authority's financial statements will be prepared under International Financial Reporting Standards (IFRS) for the first time in 2010/11.
- 19 IFRS imposes significant additional reporting and disclosure requirements and the Authority will need to collect and collate additional or new data to meet these requirements. The key areas of change are likely to be private finance initiative, leases, property, plant and equipment and employee benefits.
- 20 The Authority is aware of the new requirements and has informal plans in place to collect the additional information needed.

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# 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.

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## Use of resources judgements

- 21** 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.
- 22** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 23** The Authority's use of resources theme scores are shown in Table 1 below. In considering these scores, it is important to note that the Use of Resources assessments this year under Comprehensive Area Assessment are focused more on outcomes and outputs, and are more strategic than detailed. As a result the standard required to demonstrate level three or four performance has been raised, and it is not possible to make accurate comparisons with the Authority's scores last year.

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**Table 1** Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	2
Managing resources	2

### Managing finances

- 24 The Police Authority and Force effectively manage their finances to deliver value for money. The Authority and Force manage spending within available resources and have addressed previous financial problems to create financial stability at the same time as good improvement in operational performance and good and increased public satisfaction. The Authority and Force have a medium term financial plan linked to the strategic priorities in the Local Policing Plan. Financial reporting is effective.
- 25 Costs are relatively high. There is a good understanding of unit costs and areas for efficiency have been identified as part of the medium term financial plan but spending has not systematically reviewed all high cost areas.
- 26 The Authority has well established treasury management arrangements, including appropriate controls over investments and borrowing. The Authority makes use of external expertise to ensure they have appropriate advice and report treasury management information regularly to members.

#### Recommendations

- R1 Introduce a systematic review of costs to identify high cost areas and prepare plans to maximise efficiencies.
- R2 Strengthen partnership monitoring arrangements to ensure the Authority understand the resources available from significant partners.

### Governing the business

- 27 A more strategic approach to procurement has recently been introduced. There are some significant procurement exercises underway with potential to improve value for money, but the Authority is not currently fully exploring the best method of delivering services in a systematic way and needs to focus on strategic commissioning and systematic review of services.
- 28 The Authority and Force produce relevant and reliable information to support decision making and manage performance.
- 29 There are up to date governance arrangements in place. The Authority and Force's vision is set out formally in the local policing plan. There are codes of conduct for staff and members and arrangements are in place for monitoring these.
- 30 There is a risk management strategy and register linked to strategic priorities. The risk register is regularly reviewed and updated. Counter fraud and corruption arrangements are in place. Systems of internal control are in place and working effectively.

## Value for money and use of resources

### Recommendations

- R3** Continue to strengthen the approach to procurement and commissioning of services to ensure there is a strategic approach and a systematic review of services to maximise value for money.
- R4** Introduce data quality checking of information received from partners, which is used to inform decisions at District level.
- R5** Introduce regular ethical standards training for non uniformed senior officers and members.
- R6** Strengthen partnership monitoring arrangements to ensure the Authority can demonstrate the effectiveness of significant partnerships.

### Managing resources

- 31** The Authority and Force has workforce planning arrangements in place to manage current workforce needs and develop the workforce.

### Recommendation

- R7** Continue to develop workforce planning arrangements to ensure there is an appropriate number and mix of officers and police support staff based on a systematic review of future needs and financial constraints.

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### VFM conclusion

- 32** I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body.
- 33** I issued an unqualified conclusion stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

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# Closing remarks

- 34** I have discussed and agreed this letter with the Chief Executive and the Assistant Chief Officer (Finance and Commissioning). I will present this letter at the Police Authority Executive on 10 December 2009 and will provide copies to all members.
- 35** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Authority during the year.

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**Table 2**

Report	Date issued
Audit plan	April 2008
Report to those charged with governance	September 2009
Opinion on the financial statements	September 2009
Value for money conclusion	September 2009
Use of resources	November 2009
Annual audit letter	November 2009

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

Lynne Snowball  
District Auditor

November 2009

# Appendix 1 – Audit fees

**Table 3      Audit fees**

	<b>Actual 2008/09</b>	<b>Planned 2008/09</b>	<b>Actual 2007/08</b>
Financial statements and annual governance statement	£56,900	£56,900	£54,332
Value for money	£27,800	£27,800	£23,668
<b>Total audit fees</b>	<b>£84,700</b>	<b>£84,700</b>	<b>£78,000</b>
Non-audit work - Audit and Internal Control Panel development workshop	£4,100	£0	£0
<b>Total</b>	<b>£88,800</b>	<b>£84,700</b>	<b>£78,000</b>

## Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R1 Introduce a systematic review of costs to identify high cost areas and prepare plans to maximise efficiencies.	3	ACO (F&C) Head of Corporate Planning and Governance	Yes	Included in CPA business plan.	September 2010
8	R2 Strengthen partnership monitoring arrangements to ensure the Authority understand the resources available from significant partners.	3	Chief Executive CPA Strategy Manager	Yes	Included in CPA business plan.	April 2010
9	R3 Continue to strengthen the approach to procurement and commissioning of services to ensure there is a strategic approach and a systematic review of services to maximise value for money.	3	Chief Executive ACO (F&C) DCC	Yes	This will be undertaken with the contest of the progress of Project I.	Ongoing
9	R4 Introduce data quality checking of information received from partners, which is used to inform decisions at District level.	2	BCU commanders	Yes	Requisite data quality checking will form part of the agreed Information Sharing Protocols (ISP) which are presently being promoted with CDRPs by GONE.	As ISP are implemented
9	R5 Introduce regular ethical standards training for non uniformed senior officers and members.	2	Head of People and Diversity  Deputy Chief Executive	Yes  Yes	Training is to be provided to Heads of Service on the Disciplinary Code and the Code of Conduct, and this will encompass ethical standards.  To be included in the annual CPA Member Training Programme.	December 2010  December 2009

## Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	R6 Strengthen partnership monitoring arrangements to ensure the Authority can demonstrate the effectiveness of significant partnerships.	3	Chief Executive CPA Strategy Manager	Yes	Included in the CPA business plan.	April 2010
9	R7 Continue to develop workforce planning arrangements to ensure there is an appropriate number and mix of officers and police support staff based on a systematic review of future needs and financial constraints.	3	DCC Head of People and Diversity	Yes	Commitment to specific numbers of Police Officers and PCSO is to be sustained until 2010/11. Public finances thereafter represent a significant challenge and workforce planning will necessarily take this into account.	December 2010

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# 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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