

Interim Audit Letter

Cleveland Police Authority

Audit 2010/11



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Key messages

This interim letter summarises the findings from my 2010/11 audit to date. The audit has not been closed due to an ongoing investigation. My audit comprises two elements:

- the audit of the Authority's financial statements; and
- my assessment of the Authority's arrangements to achieve value for money in its use of resources.

Audit responsibility	Findings
Unqualified audit opinion	Yes
Proper arrangements to secure value for money	Deferred

Audit opinion and financial statements

I issued an unqualified opinion on 28 September 2011.

Officers produced the accounts well ahead of 30 June deadline, and only a few minor amendments and changes to disclosure were required. This year's financial statements were the first prepared under International Financial Reporting Standards, with a number of complex and time-consuming changes to address. The Authority managed the implementation well.

Value for money

I have not issued a value for money conclusion because of the external investigation which may have implications for my assessment of the Authority's arrangements. I will await the outcome of the investigation before issuing a conclusion.

I have concerns about the robustness of the Authority's action plans to secure savings required to deliver the longer-term financial plan.

I have identified several weaknesses in governance and internal control arrangements for the calculation and approval of redundancy payments; the appointment of a Monitoring Officer; the powers available to reimburse legal fees and arrangements for employing some consultants. The Authority needs to take urgent action to address these weaknesses.

Certificate to close the audit

I cannot issue a certificate to close the audit until I have issued my VFM conclusion on the arrangements for securing economy, efficiency and effectiveness in the use of resources for the year ended 31 March 2011.

Current and future challenges

Current and future challenges facing the Authority are significant..

Economic downturn and pressure on the public sector

The Authority needs to deliver effective policing and meet its objectives with decreasing resources. The Authority's longer-term financial plan has set out the significant savings needed to maintain financial balance. However, a number of these areas for savings have a high risk of non-delivery, where decisions are outside the Authority's control or require further development. The financial plan assumes use of general fund balances of £1.1 million in 2012/13. The Authority will need to closely monitor delivery of savings, developing further plans as necessary to maintain a sound financial position.

Changes arising from the Police Reform and Social Responsibility Act 2011, introducing a Police and Crime Commissioner and Policing and Crime Panel to replace the current Police Authority.

The election for the Police and Crime Commissioner (PCC) is scheduled to take place on 15 November 2012. The Authority has started its preparations for the transition, considering future governance arrangements, internal and external structures to enable the PCC and Policing and Crime Panel to exercise their functions effectively and communicate with stakeholders on their proposals. There is still some doubt about how the new arrangements will work and the Home Office is still to issue further guidance.

The independent police investigation has resulted in the resignation of the former Chairman, and the suspension of the Chief Constable and Deputy Chief Constable.

An Acting Chief Executive is in place, but will be leaving 31 October 2011. The impact of the current investigation, financial pressures and changes arising from the Government's police reforms will place significant demands on senior officer time. The Authority needs to ensure that it has sufficient capacity and a Chief Executive in place to provide strong leadership in the period up to November 2012.

Financial statements and annual governance statement

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

Overall conclusion from the audit

I issued an unqualified opinion on the financial statements on 28 September 2011.

My audit identified three non-material errors which officers corrected. These had no impact on the reported financial performance of the Authority.

The Authority implemented the change to International Financial Reporting Standards this year, which meant restating the 2009/10 opening and closing balance sheets and Income and Expenditure Account. This was a significant and complex exercise. Officers managed the change well and I received the restated previous years accounts early in the year, to allow early audit work to be completed well before the preparation of the statements for 2010/11.

Significant weaknesses in internal control

I have identified a number of issues which indicate weaknesses in internal controls and governance arrangements. I was satisfied that these issues did not have a material impact on the opinion on the financial statements. I will, however, consider the issues as part of my assessment of the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources, at the point when I conclude this work.

I have raised a number of issues related to employment practices.

- Inappropriate use of delegated authority to approve senior officer redundancy payments.
- Inaccurate reporting in a business case to support a redundancy proposal, grossly overstating potential savings.
- Potential overpayments on redundancy packages, amounting to some £35,000.
- Practices which potentially represent poor value for money in awarding discretionary weeks in the calculation of redundancy payments; a retention package arrangement and reimbursements for annual leave not taken.
- The actual savings arising from a redundancy being much lower than those reported in the business case to approve the redundancy.

I have also raised concerns on other issues.

- The competitiveness of hourly rates on some long-running consultancy arrangements, given these have never been benchmarked or tested competitively.
- The legal powers available to the Authority to reimburse legal fees incurred by an individual.
- The failure to formally appoint a Monitoring Officer for the period June 2010 to date, which is a significant gap in the Authority's governance arrangements. The Monitoring Officer role is a statutory requirement for every Police Authority.

I have produced a detailed report covering these issues, and the Authority has agreed action in response to my recommendations to address the concerns I have raised..

Value for money

I am required to consider whether the Authority is managing and using its money, time and people to deliver value for money, assessing performance against the criteria specified by the Audit Commission. I am unable to issue a value for money conclusion due to the external investigation which may have implications on my assessment of the Authority's arrangements.

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

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

I am unable to conclude my work due to the ongoing investigation, but my interim findings on each of the two areas are set out below.

Value for money criteria and key messages

Criterion	Key messages
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>Financial control is sound. The Authority set balanced budgets in 2010/11 and 2011/12, and the 2010/11 spend was managed within budget. At the end of September officers reported a projected underspend of £1 million at 31 March 2012. However the long-term financial plan assumes that the underspend will be delivered, and it is earmarked to manage the future workforce modernisation plans.</p> <p>The longer-term financial plan proposes to use £1.1 million of general reserves in 2012/13, bringing the non-earmarked reserves down to £4.3 million, or 3.5 per cent of the net budget requirement. The plan also requires further savings of £6.5 million in 2012/13 and £8.5 million in 2013/14.</p>

Criterion	Key messages
	<p>Within these savings targets the Authority has recognised that £1.4 million and £1.5 million have a high risk of non-delivery for the two years, where decisions are outside the Authority's control or require further development.</p> <p>The Treasurer has fully reported on the significant risks attached to delivering a sound financial position in the medium to long-term.</p>
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>The Authority and Force has scope to improve value from money and reduce costs.</p> <p>HMIC cost profiles and inspection findings have reported the number of police officers is high compared to family average. Plans are in place to reduce the establishment by 200 posts in the next two years from 1,727 to 1,500 in 2012/13 and to 1,460 in 2015/16.</p> <p>The Authority is one of the most expensive in England indicating scope to reduce costs without compromising efficiency.</p> <p>The Authority has recently outsourced some of its back office services to a private sector company and the efficiencies from this procurement have been built into the long term financial plan.</p> <p>Members need to improve their scrutiny of the performance of the contract to ensure that delivery meets contracts specifications, forecast savings are realised and that any contract variations are appropriate and reasonable.</p>

Closing remarks

I have discussed and agreed this letter with the Acting Chief Executive and the Treasurer. I will present this letter at the Authority Executive Meeting and will provide copies to all Authority members.

Further detailed findings, conclusions and recommendations in the areas covered by my audit are included in the reports issued to the Authority during the year.

Report	Date issued
Annual Fee Letter	27 April 2010
Audit Plan	21 April 2011
Annual Governance Report	23 September 2011
Audit Opinion	28 September 2011
VFM conclusion and Certificate to close the audit	Deferred
Issues arising from the audit	October 2011

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

October 2011

Appendix 1 - Fees

	Planned	Actual	Variance
Total	£90,900	£95,725	£4,825

The audit fee of £90,900 reported in my audit plan was based on the risks identified at the time. Additional work has been required to:

- review the implications of the investigation currently underway on the opinion and VFM conclusions; and
- review a number of issues arising relating to termination payments, arrangements for consultants used by the Authority and reimbursement of legal fees.

The additional fee to date amounts to £4,825. However, further work will be needed at the point where the investigation is completed, to issue the VFM conclusion and certificate to close the Audit. I will provide further updates as the position is clarified.

Appendix 2 - 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 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.

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.

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.

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