

Interim annual governance report

Cleveland Police Authority

Audit 2010/11



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Key messages

This report summarises the findings from the 2010/11 audit so far.

It includes the messages arising from my audit of the Authority's financial statements and the results from the work I have undertaken to assess the Authority's arrangements to secure value for money in its use of resources.

	Our findings
Unqualified audit opinion	Yes
Proper arrangements to secure value for money	Deferred

Audit opinion and financial statements

My work on the Authority's draft financial statements is substantially complete, and I propose to issue an unqualified audit opinion.

The accounts were again produced well ahead of the 30 June deadline, and only a few minor amendments and changes to disclosures were required.

The changes arising from the implementation of International Financial Reporting Standards have been complex and time consuming to address. The Authority has managed the implementation well.

Value for money

My planned work to support the value for money conclusion is substantially complete. I have concerns about the robustness of the Authority's action plans to secure the savings required to deliver the long-term financial plan and bridge the gap of £3.2 million identified in the medium term financial plan.

I am however unable to conclude my work and issue a value for money conclusion because of the external investigation which may have implications on my assessment of the Authority's arrangements. I will await the outcome of the investigation before concluding this work.

Certificate to close the audit

The audit cannot be formally completed and an audit certificate issued until I have issued my conclusion relating to proper arrangements for securing economy, efficiency and effectiveness in the use of resources for the year ending 31 March 2011.

Before I complete my audit

I confirm to you

My report 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.

Independence

I can confirm that I have complied with the Auditing Practices 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.

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

Audit fee

The audit fee of £90,900 reported to you 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 a number of 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.

I ask you to confirm to me

I ask the Authority to:

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- approve the letter of representation, provided alongside this report, on behalf of the Authority before I issue my opinion; and
- agree your response to the proposed action plan (Appendix 5).

Financial statements

My audit is substantially complete and I plan to issue an unqualified opinion.

Opinion on the financial statements

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 report.

Errors in the financial statements

My audit identified a few non-material errors in the financial statements. Appendix 2 shows those management have agreed to amend.

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.

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

Key audit risk and our findings

Key audit risk	Finding
<p>1. Changes from the introduction of IFRS accounting standards</p> <p>The Authority must implement International Financial Reporting Standards in 2010/11. This requires restating the opening and closing balance sheets for 2009/10 and restating the 2009/10 Income and Expenditure Accounts, Cash Flow Statement and Movement in Reserves Statement.</p> <p>Of particular concern are changes to accounting for accrued leave, which is a particular issue for Police Authorities.</p>	<p>My audit has not identified any significant issues.</p> <p>Officers managed the approach well and I received the restated accounts early in the calendar year. This allowed my team to resolve issues well before preparing the statements for 2010/11.</p>
<p>2. Arrangements for determining related party transactions</p> <p>I was concerned the Authority did not have sufficiently robust arrangements to identify and disclose all relevant related party transactions</p>	<p>Some declarations were signed in the weeks before the year-end. These declarations should be made at 31 March to cover the full financial year.</p> <p>The Authority did not ask the former Chief Executive to make a declaration before he left in 2010, but this has subsequently been obtained.</p>

Financial statements

Quality of the Authority's financial statements

I consider aspects of the Authority's accounting practices, accounting policies, accounting estimates and financial statements disclosures.

There are no matters I wish to bring to your attention.

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about the Authority's financial statements and governance arrangements.

The letter of representation accompanies this report.

Financial statements

Significant matters that were discussed or subject to correspondence with management

I have discussed a number of other issues with management. I am still concluding the work on these issues but I am satisfied that they do not have a material impact on my audit opinion on the financial statements. I will consider the issues further as part of my VFM conclusion, which I have deferred pending the outcome of the current investigation, as previously discussed in this report. I will report more fully on the issues in a separate report in the near future, but the issues are reported below in summary.

Termination payments

- 1 I have previously reported to the Authority on my concerns on a termination package paid in June 2010. I reported that the decision had not been properly approved and the report to support the recommendation was incomplete with significant inaccuracies, grossly overstating potential savings. The Authority responded to these concerns and presented a revised report which was approved at a meeting of the Police Authority Executive.
- 2 I have reviewed the termination payments reported in the notes to the 2010/11 financial statements and have raised several issues:
 - the robustness of the business cases to support the addition of discretionary added weeks. I understand that it has been common practice to award this discretionary addition to redundancy payments, which potentially represents poor VFM.
 - I have queried a number of elements added to the salaries on which the redundancy payment was calculated (car allowance, PRP, additional allowances). This may have resulted in overpayments. However, in practice it may prove difficult to recover any such overpayment at this stage;
 - a payment to compensate for annual leave not taken. I have been informed that it was common practice for a number of senior staff to be reimbursed for leave not taken. This is an additional cost to the Authority, potentially representing poor VFM.

Monitoring Officer

- 3 The Monitoring Officer resigned from this role on 24 June 2010. I have questioned why payment for this role continued after the resignation, and was subsequently included in the calculations for redundancy. I have been informed that other work for the Authority was still carried out after the resignation date. However, my understanding was that the award was made for the statutory responsibility of Monitoring Officer.
- 4 I have had conflicting views on who took over the role after this:
 - either the Acting Chief Executive, previously Deputy Monitoring Officer: or
 - a consultant who provides regular services to the Authority (for example, I have seen a report to the Standards Committee, where this individual is reported as Monitoring Officer.

5 There is however, no evidence of formal approval by the Authority for this statutory appointment. I have concerns over the lack of clarity on who held this role. If the role was held by a consultant, I would question whether someone outside the Authority without the necessary access to Authority activities would be able to effectively meet the responsibilities of this statutory role.

6 This issue has now been addressed with the current Acting Chief Executive taking on the Monitoring Officer role. This needs to be approved formally by the Authority.

Reimbursement of legal fees

Following the announcement of an independent criminal investigation into Cleveland Police Authority, the Chairman resigned in May 2011. After taking legal advice, the Authority has been reimbursing the legal fees incurred by the Chairman (£8,761 to date). I am currently reviewing the advice obtained to assess the Authorities powers to incur this expenditure.

Employment of consultants

I have raised concerns on the value for money of some arrangements for the employment of consultants:

- One contact, now running for five years includes a guaranteed minimum number of days per annum, with no break clause in the contract
- The above contact, together with another running for 10 years has not been competitively tested. Contract Standing Orders have been waived given the specialist input considered to be provided.

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.

I assess the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires auditors to consider arrangements across nine themes. This year auditors have focused on two criteria specified by the Audit Commission. The criteria are the Authority has proper arrangements to:

- Secure financial resilience
- Challenge how it secures economy, efficiency and effectiveness

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.

My interim findings on each of the two areas are set out below.

Value for money criteria and our findings

Criterion	Findings
<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 2010/11 spend was managed within the budget. Officers are projecting a small overspend at 31 March 2012 but have identified some non-recurring savings to offset this deficit.</p> <p>There are several significant risks attached to securing the long-term financial resilience of the Authority and any successor body. The long term financial plan presented in June 2011 was dependent on achieving £19 million of savings which, at the time, were rated as red risk (that is dependent on events outside the control of the Authority).</p>

Criterion	Findings
	<p>A further £3.2 million savings are not supported by any detailed plans. I understand that officers will provide a further update to members at the end of September.</p> <p>Plans to use 50% of balances to support the 2011/12 budget will take reserves down to 3% of the net budget requirement. This gives the Authority limited contingency to manage unexpected difficulties, for example the costs of the current investigation or transition to the new Police and Crime Commissioner arrangements proposed in the current Bill.</p> <p>The Authority needs to take urgent action to deliver savings and reduce expenditure.</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 Force has scope to improve value for money and reduce costs.</p> <p>HMIC cost profiles and inspection findings have reported that the number of police officers is high compared with family average, but plans are in place to reduce the establishment by 200 posts in the next two years. The Force was awarded Police Force of the Year 2010 and crime levels, although still higher than average, are falling faster than average with detection rates higher than average. This improvement in performance has been achieved while operating at 95% of the current establishment of police officers.</p> <p>The Authority has recently outsourced some its back office services to a private sector company and the efficiencies from this procurement have been built into the long-term financial plan. Members need to improve the scrutiny of the performance of the company to ensure that delivery meets contract specification, that all the forecast savings are realised and that any contract variations are appropriate and reasonable.</p>

Appendix 1 – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CLEVELAND 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 Cleveland 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 Cleveland 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 Cleveland 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, other than liabilities to pay pensions and other benefits after the end of the scheme year; 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.

Delay in issuing the conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the 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 for securing economy, efficiency and effectiveness in the use of resources, having regard to the relevant criteria specified by the Audit Commission. I have been unable to conclude my work and issue my conclusion as an independent police investigation is underway into issues at Cleveland Police Authority, the outcome of which may be relevant to me reaching a conclusion.

Delay in certification of completion of the audit

The audit cannot be formally concluded and an audit certificate issued until I have issued my conclusion relating to proper arrangements for securing economy, efficiency and effectiveness in the use of resources for the year ending 31 March 2011.

Lynne Snowball

Officer of the Audit Commission

Audit Commission
Eshton Office
Wynyard Park House
Wynyard Avenue
Wynyard Park
TS22 5TB

[Date]

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 aid you in fulfilling your governance responsibilities.

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Short term debtors	Payments in advance from the previous year were not cleared from the balance sheet codes	-	76.2	-	76.2
The change in valuation of pension fund from RPI to CPI (£98.4 million) shown as a non-distributed cost in the CIES	The change in value was moved to reflect as an exceptional item instead of as a non-distributed cost	-	-	-	-
Pension Fund disclosure	additional text was added to the note to meet the requirements of IAS 19	-	-	-	-

There were some presentational amendments to meet the requirements of the CIPFA Statement of Recommended Practice.

Appendix 4 – 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 Auditing Practices Board (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.

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- any director/member or officer in their individual capacity; or
- any third party.

