

Annual Governance Report

Cleveland Police Authority

Audit 2008/09

Date

Contents

Key messages	4
Next steps	6
Financial statements	7
Use of resources	10
Appendix 1 – Independent auditor’s report to Members of Cleveland Police Authority	12
Appendix 2 – Adjusted amendments to the accounts	16
Appendix 3 – Draft letter of representation	18
Appendix 4 – Action Plan	21
The Audit Commission	22

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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Ladies and Gentlemen

2008/09 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2008/09. A draft of the report was presented to the Audit and Internal Control Panel on 3 September and discussed and agreed with officers and key members on 22 September and has been updated since as issues have been resolved.

The 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 8 to 51);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- approve the letter of representation (Appendix 3) before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (Appendix 4).

Yours faithfully

Lynne Snowball

District Auditor

Date 30 September 2009

Key messages

This report summarises the findings from the 2008/09 audit which is 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.

Financial Statements	Results	Page
Unqualified audit opinion	Yes	7
Financial statements free from material error	Yes, with the exception of the actuary's error on pension fund interest	7
Adequate internal control environment	Yes	7
Use of resources	Results	Page
Use of resources judgements	Yes	10
Adequate arrangements to secure value for money	Yes	11

Audit opinion

- 1 We expect to issue an unqualified opinion on the financial statements.

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 are six amendments which have been made to the financial statements during the audit, the issues are technical in nature and do not affect the Force outturn position. The amendments relate to pension benefit adjustments, issues relating to the dissolution of the North East Air Support Unit and additional information being disclosed in the notes to the accounts.

Use of resources

- 4 The use of resources scores, based on the new more challenging methodology introduced as part of Comprehensive Area Assessment, have recently been reported to the Authority by the Audit Commission. Overall, the Police Authority is assessed as performing adequately with particular strength in managing finances. The Police

Key messages

Authority is currently considering whether to request a review of the overall score, a further verbal update will be given to the Police Authority.

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.

5 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 8 to 51);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- approve the letter of representation before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 4).

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

6 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.

Errors in the financial statements

7 The following errors have been amended in the accounts:

- the pension fund wrote to the Force 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 increases charges to the income and expenditure account by £7.8m 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 £1.115m were omitted from the pension fund net asset statement, this has now been amended;
- 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 has been reclassified from non-operational assets to operational assets;
- the brought forward figures for the pension fund reserve and liability and the income and expenditure account balance have been adjusted by £590,000 and £20,000 to reflect changes to pension fund accounting in 2008/09. The relevant financial reporting standard only permits changes to previous year audited figures if the affects are material. The adjustments were not material and has now been accounted for in year and disclosed as a change to accounting policies;
- 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. The pension fund auditor estimated that the impact of the error would result in an estimated decrease to the pension fund deficit of £96,000, and this has now been amended; and
- the accounts should follow the Statement of Recommended Practice (SoRP). Some of the notes to the accounts required by the SoRP were not included and

others did not contain enough detail, additional disclosures have been added to correct this.

- 8 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 position. Cleveland has reflected the dissolution of the agreement using the most accurate information available at the time and a separate assurance that this is not expected to be significantly different has been included in the letter of representation.

Recommendation

R1 The Police Authority and Force should review all accounting policies and disclosures in the financial statements against the relevant Statement of Recommended Practice and ensure disclosures are detailed enough to meet the SoRP requirements.

R2 The Police Authority and Force should ensure that balances brought forward are only amended when any changes to accounting policies or errors identified relating to the previous year are material.

Material weaknesses in internal control

- 9 We have not identified any material weaknesses in internal control to bring to your attention.

Letter of representation

- 10 Before I issue my opinion, auditing standards require me to obtain appropriate written representations from the Police Authority Executive and management about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation I seek to obtain from the Executive.

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. My findings are set out in Table 1.

Financial statements

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
The five yearly revaluation of fixed assets is being carried out and will need to include consideration of impairment of assets. Impairment of asset values is necessary when an asset is no longer worth as much due either to economic conditions or physical deterioration.	The revaluation has been carried out and included enough information about the current state of assets to inform the impairment review.
The fixed asset register is updated annually rather than on an ongoing basis.	Our work on fixed assets confirmed that appropriate arrangements are in place to ensure that entries in the financial statements are accurate and supported by appropriate documentation.

Accounting practice and financial reporting

12 I consider the qualitative aspects of your financial reporting and have not identified any significant issues to raise with you.

Use of resources

I am required to consider how well the Authority is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and give a scored use of resources judgement.

I am also required to conclude 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.

Use of resources judgements

- 13** 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.
- 14** 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.
- 15** The Authority's use of resources theme scores are shown in Table 2 below. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised below. I intend to issue a separate report detailing findings, conclusions and recommendations for discussion with officers.
- 16** 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 difficult to make accurate comparisons with the Authority's scores last year.
- 17** The Police Authority is currently considering whether to request a review of the score a further verbal update will be given to the Police Authority.

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

Managing finances

- 18** The Police Authority and Force effectively manage their finances to deliver value for money. There is a good understanding of costs and evidence of funding being moved

Use of resources

to improve operational performance. Overall outcomes are reduced crime and improved public satisfaction.

Governing the business

- 19 The Authority and Force have arrangements in place to govern themselves and commission services that provide value for money. The Authority and Force produce relevant and reliable information to support decision making and manage performance.
- 20 There are up to date governance arrangements in place. The Authority and Force's vision is set out formally in the local policing plan. The Authority and Force have codes of conduct for staff and members and arrangements are in place for monitoring these.
- 21 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.

Managing other resources

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

Value for money conclusion

- 23 I assess 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 criteria are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out in Appendix 5.
- 24 I intend to issue an unqualified conclusion for 2008/09 stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my draft report.

Appendix 1 – Independent auditor’s report to Members of Cleveland Police Authority

Opinion on the financial statements

I have audited the accounting statements, the police pension fund accounting statements and related notes of Cleveland Police Authority for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Balance Sheet, Statement of Total Recognised Gains and Losses, 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. The financial statements and police pension fund accounting statements have been prepared under the accounting policies set out within them.

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 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Executive and auditor

The Chief Executive’s responsibilities for preparing the financial statements, including the police pension fund accounting statements, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements, the police pension fund accounting statements and related notes present fairly, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2008:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial transactions of its police pension fund during the year and the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Appendix 1 – Independent auditor’s report to Members of Cleveland Police Authority

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements, the police pension fund accounting statements and related notes and consider whether it is consistent with the audited accounting statements, the police pension fund accounting statements and related notes. This other information comprises the Explanatory Foreword and the Chief Executive’s Introduction. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements, the police pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements, the police pension fund accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements, the police pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements, the police pension fund accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements, the police pension fund accounting statements and related notes.

Opinion

In my opinion:

- The accounting statements and related notes present fairly, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended; and

- The police pension fund accounting statements present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial transactions of the police pension fund during the year ended 31 March 2009 and the amount and disposition of the fund’s assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Conclusion on 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 regularly to review the adequacy and effectiveness of these arrangements.

Auditor’s Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority 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 in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for police authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. 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.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for police authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, I am satisfied that, in all significant respects, Cleveland Police Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Certificate

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

Appendix 1 – Independent auditor’s report to Members of Cleveland Police Authority

Lynne Snowball
District Auditor

Audit Commission
Nickalls House
Metro Centre
Gateshead
Tyne & Wear
NE11 9NH

Date 30 September 2009

Appendix 2 – Adjusted amendments to the accounts

The following misstatements were identified during the course of my audit and the financial statements have been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities.

Table 2

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Error in the interest rate used by the actuary to calculate pension fund interest costs	Increased charges of £7.8m to the income and expenditure account reversed out through the statement of total recognised gains and losses	7,800	7,800		
Change to balance brought forward to reflect a change in accounting policy on pension fund accounting	Restatement of brought forward balances to those in the final audited accounts for 2007/08	20	20	590	590
Unpaid pension benefits relating to retirements between 2007 and 2008	Include adjustment in pension fund net asset statement	Only impacts on the pension fund net asset statement not the income and expenditure account or balance sheet			

Appendix 2 – Adjusted amendments to the accounts

		Income and Expenditure Account		Balance Sheet	
The helicopter has been classified as a non-operational asset to reflect the end of the consortium arrangement. Although its ownership has changed it remained in operation	Reclassification between non operational and operational assets			486	486
The pension fund auditor identified a difference on the FRS17 investment information as the actuary has used estimated investment information which is different to the actual at the year end	Decrease in pension fund liability and reserve			96	96

Appendix 3 – Draft letter of representation

Mrs L Snowball
District Auditor
Audit Commission
Nickalls House
Metro Centre
Gateshead
NE11 9NH

Cleveland Police Authority - Audit for the year ended 31 March 2009

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors, officers, and officials of Cleveland 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 2009. All representations cover the Authority's accounts and Pension Fund accounts included within the financial statements.

Compliance with the statutory authorities

I acknowledge 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 present fairly the financial position and financial performance of the Authority and for making accurate representations to you.

Supporting records

All the accounting records have 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 accounting records. All other records and related information, including minutes of all Authority and Panel meetings, have been made available to you.

Irregularities

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

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or

Appendix 3 – Draft letter of representation

- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

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; and
- 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.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the 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. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For depreciation, accruals, provisions, contingent liabilities and FRS17 entries assumption, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events do not require adjustment to the fair value measurement.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in Note 16 to the financial statements we have no other lines of credit arrangements.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

Post balance sheet events

Since the date of approval of the financial statements by the Authority, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

The Authority has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Specific representations:

There are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements.

The final amount owed on dissolution of the North East Air Support Unit will not be significantly different from that included in the financial statements.

Signed on behalf of Cleveland Police Authority

J McCarthy
Chief Executive

I confirm that this letter has been discussed and agreed by the Authority on 30 September 2009.

Signed

Councillor D McLuckie
Chair of the Police Authority

Date 30 September 2009

Appendix 4 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Governance Report 2008/09 – Recommendations						
7	R1 The Police Authority and Force should review all accounting policies and disclosures in the financial statements against the relevant Statement of Recommended Practice and ensure disclosures are detailed enough to meet the SoRP requirements.	3	Head of Corporate Finance	Yes	As part of preparation for IFRS implementation	May 2010
7	R2 The Police Authority and Force should ensure that balances brought forward are only amended when any changes to accounting policies or errors identified relating to the previous year are material.	3	Head of Corporate Finance	Yes	As part of preparation for IFRS implementation	May 2010

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.

Copies of this report

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