

# Annual Audit Letter

Cleveland Police Authority

Audit 2009/10

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**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 6); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 7 to 10).**

## **Audit opinion and financial statements**

- 1** I gave an unqualified opinion on the Authority's 2009/10 financial statements on 29 September 2010.
- 2** The Authority produced draft financial statements in time and to a good standard, with reliable supporting working papers.
- 3** There was one material error identified from my audit, relating to the valuation of the Authority's Private Finance Initiative (PFI) assets and related liabilities. The Authority addressed this complex technical issue well overall, but a material adjustment was necessary to correct the initial value of the asset and related accounting entries.
- 4** The Authority will have to produce accounts that comply with the International Financial Reporting Standards (IFRS) from 2010/11. My work to date confirms that the Authority has made good progress towards preparing IFRS compliant accounts.

## **Value for money**

- 5** I gave an unqualified opinion on the Authority's value for money arrangements for 2009/10.
- 6** The Authority met required standards in all areas. The Authority has good financial management arrangements and relevant and reliable information to support decision making. It has good internal control and risk management arrangements. The Force and the Authority have been able to show how some of the initiatives put in place last year have made a positive difference, with continued improvement in arrangements and performance.

## **Current and future challenges**

- 7** All public sector bodies face a major challenge in responding to immediate and future reductions in funding, to cut costs whilst maintaining services to the public. Cleveland Police Authority is no exception to this.

**8** The Authority has made good progress in reviewing costs and delivering savings in recent years. Notably, the recent decision to outsource a number of its support services to a private company aims to deliver significant efficiencies.

**9** However, Cleveland Police Authorities costs per head of population remain relatively high and further action is needed. The Authority has good arrangements, including effective financial management and a sound financial position, which will support it in responding to future challenges.

### **Audit fees**

**10** The fee for undertaking the audit in 2009/10 was £94,370 (plus VAT), an increase of £8,590 from the original fee. The extra fee was required to review and report on a legal issue and for additional audit work required to consider the Authority's accounting treatment of its PFI assets and subsequent amendment of the financial statements.

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# 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.**

**I gave an unqualified opinion on the Authority's 2009/10 financial statements on 29 September 2010, ahead of the statutory target date.**

## Overall conclusion from the audit

- 11** I issued an unqualified opinion on the financial statements.
- 12** The Authority provided draft financial statements well in advance of the 30 June deadline. The quality of both the financial statements and working papers was good.
- 13** I reported the findings of my audit to members of the Authority on 29 September 2010.
- 14** I identified one material error during the audit on the valuation of the Authority's PFI assets and related liabilities. The Authority had to review accounting for PFI schemes in 2009/10 brought PFI in response to new accounting rules. For Cleveland Police Authority, this resulted in two schemes (for a number of divisional police stations and for the Urray Nook weapons training centre) being recognised as assets on the balance sheet. The Authority addressed this complex and technical accounting issue well overall, but a material adjustment of £12.9 million was needed to correct the initial value of the asset and related accounting entries. I also identified some non-trivial errors or adjustments for which management amended the financial statements.
- 15** None of these changes impacted on the financial performance in the Income and Expenditure Account and the Authority's balances were not affected.
- 16** I did not identify any significant weaknesses in your internal control arrangements.

# 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 (VFM) conclusion.**

## **2009/10 use of resources assessments**

**17** 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.

**18** 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 2010 to inform my 2009/10 conclusion.

## **VFM conclusion**

**19** I assessed the Authority's arrangements to achieve economy, efficiency and effectiveness in its use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

**20** I issued an unqualified conclusion stating the Authority had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources. The key messages are reported below.

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

### Managing Finances

**22** The Authority manages spending within available resources and secured a financially stable position whilst improving operational performance and increasing public satisfaction. Financial management and reporting is good.

**23** The Authority recognises the need to reduce costs and has delivered a programme of efficiency savings over a number of years. This process has enabled the Authority to deliver cost improvements at a level of those of other Police Authorities, although benchmarking shows that it remains a relatively high cost service. There has been little change in the areas of identified high spend for several years and latest data shows Cleveland Police Authority to be the second most expensive Authority nationally, per head of population.

**24** The outsourcing of support services during 2010/11 is expected to yield significant cost savings for the future. This will be an important part of the Authority's strategy to meet expected reductions in future funding, but medium term financial plans show that further efficiencies are required. The Authority will have a crucial role in holding the Force to account for the delivery of these efficiencies and in evidencing how it has done so. Our work has shown the Authority has the arrangements in place to undertake this role effectively.

## **Governing the business**

**25** The Authority's governance arrangements remain strong, underpinned by clear policies on ethical issues. This policy is supported by the full range of expected procedures, which are well publicised and show high levels of awareness among officers and members.

**26** Development of the procurement function is delivering significant savings, underpinned by good consultation arrangements that give a clear understanding of the diverse needs of local communities. Partnership working with local councils and the private sector is effective and well-established. However the Authority could further consider how it uses its capital programme investment to support its wider strategic objectives when evaluating projects.

**27** The Authority and Force have relevant, reliable information to support decision making. Systems have been designed to improve mobile access and to improve accuracy and efficiency through better linkages between systems. Members have good access to these systems to aid them in their role although a lack of recorded scrutiny makes it difficult to determine the impact that performance data has on decision making.

**28** The Force and Authority have prioritised development of their risk management arrangements and this is delivering improvements. The risk management strategy and registers are now linked to strategic priorities and include reference to partnerships. Risk management training has been undertaken by all members and is refreshed annually for officers. The Force and Authority risk registers are better aligned and risk management is fully integrated into business processes.

## **Managing natural resources**

**29** This year the Audit Commission directed me to look at how the Authority use natural resources, including use of fossil fuels, reducing its carbon footprint, and recycling.

**30** The Authority is still in the relatively early stages of this work, but has made progress. It has developed a draft strategy to reduce its own use of natural resources and its impact on the environment. The challenge for the future will be to implement this strategy and achieve the expected outcomes.

**31** There is baseline data on fuel use over time and some limited performance measures are in place to demonstrate areas of reducing use of resources. For example the vehicle fleet's carbon footprint has reduced by twenty per cent since 2004.

**32** However, the Authority needs to extend the range of performance measures to encompass all significant resource areas across all of the Authority's major in-house operations. Developing more non-financial measures would also assist the Authority. For example while the cost of energy use is readily available, measurements of the associated environmental cost are not. Provision of this type of information will be

important for the Authority to demonstrate the effectiveness of its natural resource management and help focus action to where it can most effectively intervene to reduce its resource use.

## Other issues

**33** In response to the review of a specific issue arising during the audit, I made recommendations to improve the Authority's decision making process:

- ensure that Committees and Panels of the Authority only consider issues within their terms of reference and the Authority's scheme of delegation;
- ensure appropriate professional advice, including financial, legal and human resource advice as appropriate for all reports, with all relevant information reported to ensure an informed decision making process.

## Police Inspection report

**34** The recent HMIC Police Inspection report concluded that the Authority was 'performing well' in ensuring that local people have an efficient and effective police service.

**35** The report acknowledges that the Authority has maintained a clear commitment to improve value for money, redirects resources to address operational risk and takes difficult decisions to secure long term gain. Clear and ambitious priorities are set to improve public confidence and policing and this has helped Cleveland Police become one of the top performing forces in the country over the past few years.

**36** The report also highlights a number of key issues for improvement and the Authority is in the process of developing an action plan to ensure that those issues identified by the Inspection are addressed and provide a means of monitoring that timely action is taken. We will consider the issues and progress in implementing improvements, as part of future audit work, where relevant.

## Approach to local value for money work from 2010/11

**37** 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 (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

**38** 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.

**39** I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory

responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Authority in my annual report to those charged with governance and in my annual audit letter.

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# Current and future challenges

## Achieving greater efficiencies

**40** Cleveland Police Authority, along with all public sector organisations, faces significant challenges in managing its finances. The current economic situation, with the impending spending review in October, make it more important than ever that resources are managed strategically, getting value for money in all areas of spend.

**41** My work on the value for money conclusion confirmed that Cleveland Police Authority has a detailed and effective Medium Term Financial Strategy, which is clearly linked to service plans. This will be a key element in helping make the most of resources.

**42** Potentially significant reductions in funding will mean that the Authority will have to make major changes in how it uses resources. The outsourcing of most of its support services to a private sector partner is an important element, which offers the potential for service re-engineering and improvements as well as cost savings. The Authority will need to ensure it secures the expected reductions in costs while delivering maintained or improved services. Careful monitoring of performance, maintaining effective internal controls, and an ongoing evaluation of risks will be crucial to ensuring the success of this partnering arrangement.

**43** However further savings will almost certainly be required and difficult decisions will be required of the Authority, particularly those relating to the core policing service, which will likely be evident and sensitive with the public.

**44** My work next year will focus on supporting the Authority on continuing improvements in efficiency and maintaining a sound financial position. I will be liaising with officers and members over the coming months to determine areas where my audit work can be of most benefit to the Authority and assist it in meeting the challenges it faces.

## International Financial Reporting Standards

**45** From 2010/11 the Authority will be required to produce accounts that comply with the International Financial Reporting Standards (IFRS). I have tracked the Authority's progress in preparing for this change during the year and consider that to date, arrangements are timely and effective.

**46** Nevertheless it remains a challenge for all public sector bodies to successfully adopt the standards within the 2010/11 financial statements, in terms of ensuring:

- that required information is available and in a timely manner; and
- that the complex accounting treatments are interpreted and applied.

**47** The Authority are well placed to deal with these challenges in that some of the more complicated accounting changes were implemented in 2009/10 accounts, specifically bringing the PFI assets and liabilities into the accounting statements (which was commented on earlier in this letter).

**48** However recent staffing changes within the finance function and the resource implications of the outsourcing arrangement create some potential risk. The Authority need to ensure that adequate resources and financial skills are available and applied to ensure timely and effective preparation of the 2010/11 accounts.

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## Closing remarks

**49** I have discussed and agreed this letter with the Acting Chief Executive and the Treasurer. I will provide copies to all Authority members and present this letter at the Audit & Internal Control Panel meeting on 21 October 2010.

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

Report	Date issued
Opinion Audit Plan	June 2010
Annual Governance Report	September 2010
Final Accounts report	September 2010
Governance report - decision making process	October 2010

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

Lynne Snowball  
District Auditor

October 2010

## Appendix 1 – Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	56,310	64,900	8,590
Value for money	29,470	29,470	0
Total audit fees	85,780	94,370	8,590
Non-audit work	0	0	0
Total	85,780	94,370	

The 2009/10 fee letter set a fee of £85,780, based upon the expected programme of audit and inspection work required.

Since agreeing this fee the scope of my work has increased beyond that expected. Most notably I have been required to undertake:

- significant extra work to consider the accounting treatment with regard to the valuation of PFI assets; and
- a review of the decision making process for a specific issue. This work could not have been envisaged when I submitted my plan, yet has subsequently required a significant degree of senior audit staff time.

## 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 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.