

Annual Audit Letter

Northumbria Police Authority

INSIDE THIS LETTER

PAGES 2 - 8

- The purpose of this Letter
- Background to the audit
- Key messages
- Authority performance
- Accounts and governance
- Other work
- Looking forward
- Closing remarks

PAGES 9 - 11

Appendices

- Appendix 1 - Reports issued during 2003/04
- Appendix 2 - Scope of audit
- Appendix 3 - Audit fees update

Reference:	NO013 Annual Audit Letter
Date:	December 2004

The purpose of this Letter

This is our Annual Audit Letter for 2003/04, which summarises the conclusions and significant issues arising from our recent audit of the authority. We have issued separate reports during the year having completed specific aspects of our programme. These reports are listed at appendix one for information. Appendix 2 sets out the scope of audit and Appendix 3 provides information about the fees charged.

Background to the audit

The authority and force have been faced with another demanding year and a number of key challenges including:

- continuing efforts to reduce and investigate crime, whilst promoting public safety, in line with the aims of the National Policing Plan and the authority's own Strategy Plan;
- the first 'baseline assessment' of the force by Her Majesty's Inspectorate of Constabulary's (HMIC's); and
- decreasing the number of Basic Command Units (BCUs) to six from April 2004.

A key achievement in the year was the result of HMIC's 'baseline assessment', which rated the force as 'excellent' or 'good' in 13 of the 15 categories inspected. This put it amongst the best performing police forces.

Key messages

The authority has continued to strengthen its approach in key areas. Plans have been, or are being, put in place to tackle those areas where there is a recognised need for improvement.

Authority performance

The force received the highest assessment, 'green', in our review of crime data. Whilst this is the same excellent result as last year, there is clear evidence of continuing development with only minor area for improvement identified.

The force was assessed as 'good' for both its systems and arrangements for Activity Based Costing (ABC) and for the quality of data produced. Some improvements are needed to the quality checking arrangements in order to improve confidence in the underlying systems and processes that support the ABC model.

Arrangements for producing performance information continue to meet high standards and we issued an unqualified opinion on the 2004/05 Best Value Performance Plan (BVPP).

Accounts

An unqualified opinion was given on the 2003/04 accounts. The authority is well placed to meet next year's tighter deadline for approving its accounts.

Financial standing

The authority continues to adopt a prudent approach to managing its finances. The risk assessment carried out in setting the 2004/05 budget did not highlight any concerns about the authority's ability to manage the budget pressures it faces in the medium-term.

Other governance issues

Overall, the authority has adopted sound arrangements for securing good governance and improvements have been made in a number of areas. The need for further progress on risk management, procurement and information management is recognised.

Key actions

Members need to ensure progress continues on strengthening arrangements for:

- risk management;
- procurement; and
- monitoring and enforcing compliance with information management arrangements.

Authority performance

We report in this section, the results of our performance audit in 2003/04 under the following headings:

- data quality;
- Activity Based Costing; and
- best value and performance information.

Data quality

The force received the highest assessment, 'green', in our review of crime data. Whilst this is the same excellent result as last year, there is clear evidence of continuing development with only minor areas for improvement identified. The merger of fifteen Basic Command Units into six has been achieved with no identified reductions in quality or accountability.

The National Crime Recording Standard (NCRS) requires police forces to adopt a consistent approach to crime recording, both between police divisions and police forces. A key element of this is an external review of crime recording.

Last year the Audit Commission undertook a national study of NCRS in partnership with the Police Standards Unit of the Home Office based on local reviews carried out by the Commission's appointed auditors. The results of the review were presented in a 'traffic light' system and the force achieved a 'green' rating.

During 2004 we undertook a follow-up exercise which focussed on:

- a review of management arrangements for crime recording including local procedures in Basic Command Units (BCUs); and
- test sampling incident and crime records for compliance with the NCRS.

The force's performance has continued to improve and the 2004 review has resulted in a second assessment of 'green' being made. The merger of 15 BCUs into six larger units has been successfully implemented with no apparent reduction in performance or accountability. This is an excellent result and we are confident that planned changes to call taking and restructuring of the central auditing team will not adversely affect crime recording practice.

Activity Based Costing (ABC)

The force was assessed as 'good' for both its systems and arrangements and for the quality of data produced. Some improvements are needed to the quality checking arrangements in order to improve confidence in the underlying systems and processes that support the Activity Based Costing (ABC) model.

ABC is an essential tool in establishing the links between resources used and policing outcomes delivered. It is an important element of the Policing Performance Assessment Framework (PPAF) framework.

Last year forces were asked to develop a plan of how they would generate ABC data in 2003/04. The Audit Commission reviewed key elements of force plans to provide assurance to the Home Office that there was sufficient preparation and commitment to producing ABC data. This year the Audit Commission, in partnership with the Police Standards Unit, has assessed the accuracy of the ABC data submitted to the Home Office. The review has focussed on:

- issues arising from the 2003 ABC action plan;
- the accuracy of force costing models;
- internal controls for managing activity sampling;
- the reasonableness of ABC results;
- sample testing of activity information sources; and
- the use of ABC data.

The force has closely followed national guidance and has effective systems and processes in place to deliver ABC data. This has contributed to the overall assessment of 'good'.

However, a lack of effective quality review and conclusive inter-force comparisons has made it difficult at present to determine the robustness and accuracy of the sampled data. A reasonable degree of assurance has been provided by the limited checks carried out on the incident management system and the good response from front line officers. This could be reinforced with additional checks that ensure that officers are completing the forms accurately and within a reasonable timescale.

A comparison between activity and the ABC data submitted to the Home Office identified a significant error in the submission. This was caused by a software error and a subsequent recalculation generated costs that more closely followed the initial activity data.

Further refinement of the costing model is in place for 2004/05 including major incident recording and specialist units not previously subject to the two week sampling exercise.

The force needs to conduct further checks against nationally collated data (when available) to further test the robustness of the ABC data.

Best value and performance information

Arrangements for producing performance information continue to meet high standards and we issued an unqualified opinion on the LPP for 2004/05.

Arrangements for producing performance indicators continue to meet high standards and information is well supported and evidenced. This is supported by the findings from the Audit Commission's follow-up work on data quality, which is referred to above. Following completion of our work, an unqualified opinion was issued on the 2004/05 Local Policing Plan (LPP) on 12 November 2004.

Accounts and governance

We issued an unqualified audit opinion on your financial statements on 30 November 2004.

Your overall corporate governance arrangements are generally satisfactory. The arrangements will be both formalised and further strengthened once the authority implements a number of key strategy documents such as those covering risk management and procurement.

Audit of 2003/04 accounts

This year the authority approved its financial statements on 14 July 2004, well in advance of the statutory deadline of 31 August. The authority's success in meeting the shorter deadline for producing and approving its accounts show that it is well placed to meet next year's deadline of 31 July 2005. The quality of financial statements and the working papers to support them also continue to improve. This year, there were two significant changes with which the authority had to comply:

- the requirement to produce a Statement of Internal Control (SIC); and
- the full implementation of FRS 17, retirement benefits.

We are pleased to report that the authority took appropriate steps to prepare for these changes.

Report to those with responsibility for governance in the authority

We are required, by professional standards, to report to 'those charged with governance' significant matters arising from our audit before we give an opinion on the financial statements. We are pleased to report that there were no significant issues that we needed to reported to members before issuing our opinion. This was confirmed in a Letter sent to Members of the full authority on 3 November 2004.

Financial standing

The authority continues to adopt a prudent approach to managing its finances. The risk assessment carried out in setting the 2004/05 budget did not highlight any concerns about the authority's ability to manage the budget pressures it faces in the medium-term.

General fund

The authority's net revenue expenditure in 2003/04, at £235 million, was broadly in line with the revised budget, showing an under-spend of around £1.5 million at the year-end. This was mainly due to lower than expected pensions commutations payments. The overall effect of this was to increase the general fund balance to £20.6 million at 31 March 2004.

This amounts to 8.64 per cent of the authority's revenue budget and appears relatively healthy compared to other police authorities. In-line with the requirements of the Local Government Act 2003, the Treasurer assessed the robustness of estimates and the adequacy of reserves in setting the 2004/05 budget. This assessment did not highlight any concerns about the authority's ability to manage the budget pressures set out in its medium-term financial strategy.

The authority's continuing ability to manage its finances in a prudent manner is supported by latest estimates, which suggest that it is on target to deliver the 2004/05 budget and make a further contribution to reserves.

Pensions

The authority continues to manage the financial impact of increasing pensions costs and a further £0.5 million has been set aside to meet the cost of future pensions obligations in addition to the existing £31.5m in pensions reserves.

Capital programme and resources

The authority's capital spending in 2003/04 amounted to £10.2 million, compared to a revised estimate of £11.2 million. Expenditure mainly relates to investment in assets that will be of long-term benefit including improvements to premises, the Airwave project and ongoing vehicle replacement.

During the year, the authority also secured additional capital receipts and capital grants of around £3 million, which increased usable capital reserves to £32.4 million.

The authority's track record in managing its capital programme ensures that it remains well placed to manage the financial impact of implementing the estates strategy.

Systems of internal financial control

Existing arrangements for maintaining adequate systems of internal financial control have been strengthened by the adoption of a formal Treasury management agreement during 2004.

Work continues to improve the authority's existing arrangements for risk management and procurement.

Internal audit

Effective internal audit is key to providing assurance to the authority that sound systems of internal control are in place and operating effectively. Our overall assessment remains that internal audit provides an effective service and we are satisfied with the quality and coverage of their work. Internal audit are planning to implement an e-audit system from April 2005 and are continuing to work towards attaining IIP accreditation.

Risk management

Last year we reported that the authority had not yet introduced a risk management strategy, although measures had been taken to develop the strategy and to integrate risk management into business planning arrangements. The authority has since implemented a risk register and intends to appoint a risk officer in January 2005. Work on the strategy continues with the aim of implementing a strategy early in 2005.

Procurement

The authority has not yet developed and implemented a new procurement strategy and progress in this area has been delayed by difficulties in recruiting procurement staff. This should be alleviated by the recent appointment of a procurement and supplies manager and the authority now aims to implement a new strategy by March 2005.

Bank reconciliations

Last year we suggested that bank reconciliations should be prepared more promptly and this has been achieved with the year end reconciliation for 2003/04 being completed in mid-May.

Treasury management

Gateshead Council administers the authority's loans and investments on its behalf. Last year we identified that the two bodies needed to set out their respective responsibilities and the arrangements that were operating for managing this process. During the year a formal treasury management agreement has been put in place to achieve this.

Standards of financial conduct and the prevention and detection of fraud and corruption

We have not identified any significant weaknesses in your arrangements for preventing and detecting fraud and corruption. Procedures will be further strengthened when the anti-fraud and corruption policy and code of conduct for police staff are adopted.

Overall arrangements

During the year the authority drew up an anti-fraud and corruption policy although this has not yet been finalised and adopted. Although the authority is still awaiting the imminent publication of a National Code of Conduct for police staff before introducing its own locally tailored code, a register of gifts and hospitality has already been introduced for police staff.

No instances of fraud and corruption were reported in the financial year.

Legality of transactions

Robust arrangements are in place to ensure the legality of the authority's financial transactions. Appropriate plans are in place to update these arrangements following completion of the review of the police authority structure.

The authority needs to consider whether sufficient resources are in place to meet the requirements of the Freedom of Information Act.

Overall arrangements

Last year, we carried out a detailed review of the arrangements in place to provide assurance that the role of the Monitoring Officer (MO) is being discharged effectively. We concluded that the majority of expected arrangements were in place and operating effectively. This year, the authority has further strengthened these arrangements by introducing a formal protocol.

The authority also plans to further strengthen existing arrangements by amending Financial Regulations (FRs) and Standing Orders (SOs) to reflect the role of the MO and the standards committee.

It is anticipated that this will be done in the next financial year when FRs and SOs are amended to reflect the implementation of new arrangements following the review of the police authority structure.

Information governance

Structured management processes and supporting policies have been put in place to improve information governance. These processes are also supported by technical arrangements and solutions to ensure that security issues are prevented. The importance of sound information management arrangements has been emphasised by the Freedom of Information Act, which is assessed as a key priority for the authority. The Police Standards Unit (PSU) is responsible for the delivery of the required framework.

Whilst, it is difficult to estimate the impact the Freedom of Information Act will have, it is important that existing capacity is assessed to ensure that sufficient resources are in place to deliver effective enforcement and monitoring of information management arrangements. The need to improve awareness of, and compliance with, good information management practice through formal training, induction processes, awareness sessions and/or periodic bulletins is also recognised.

Other work

Grant claims

Over recent years the number of claims requiring audit certification has grown and audit fees have risen as a result. In accordance with strategic regulation, the Audit Commission has adopted a more risk-based approach to the certification of grant claims with effect from 2003/04. Smaller claims are no longer subject to audit or receive a lighter touch. The approach to larger claims is determined by risk and the adequacy of the authority's control environment. The authority's arrangements for managing and quality assuring grant claims submitted for audit continue to be of a good standard.

National Fraud Initiative (NFI)

The authority took part in the Audit Commission's National Fraud Initiative (NFI) 2002. The NFI, which is undertaken every two years, brings together data from local authorities, NHS bodies, government departments and other agencies, to detect a wide range of frauds against the public sector. Although no savings were identified at the authority, total savings from the 2002 exercise exceeded £83 million.

The authority has further improved its arrangements for effectively investigating NFI matches. This has been achieved by developing a comprehensive strategy, implementing a timetable to cover the key stages in the process, establishing clear arrangements for reporting the outcomes to Members and officers and improving the way in which data subjects are notified of the NFI exercise.

The Audit Commission are repeating the exercise this year and will again collect a range of data from authorities. Alongside the core exercise, pilot initiatives are being undertaken at selected sites. These are focused on risk areas that were highlighted by authorities and include duplicate payments to suppliers. These pilot areas, if they prove effective, will be incorporated into future NFI exercises.

Looking forward

Future audit work

We have an agreed plan for 2004/05 and we have reported in this Letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2004/05 accounts, will be reported in next year's Letter.

We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the authority. We will continue with this approach when planning our programme of work for 2005/06. We will seek to reconsider, with you, your key priorities and develop an agreed programme by 31 March 2005.

We will continue to work with Her Majesty's Inspectorate of Constabulary (HMIC) to develop a co-ordinated approach to regulation.

Revision to the Code of Audit Practice

The Audit Commission has consulted on a revised Code of Audit Practice for application to the audit of the 2005/06 accounts. The new Code, which will be laid before parliament in January 2005, is designed to secure:

- a more streamlined audit, which is proportionate to risk and targeted on areas where auditors have most to contribute to improvement;
- a stronger emphasis on value for money, focussing on bodies' corporate performance and financial management arrangements (rather than individual services and functions); and
- better and clearer reporting of the results of audits.

Further details will be provided in the audit plan for 2005/06.

Closing remarks

This Letter has been discussed and agreed with the Chair of the authority, the Clerk, Assistant Clerk, Treasurer and Chief Constable. A copy of the Letter will be provided to all Members and will be presented to the authority in January 2005.

The authority has continued to take a positive and constructive approach to our audit and I would like to take this opportunity to express my appreciation for the assistance and co-operation given.

Availability of this Letter

This Letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the authority's website.



David Jennings
District Auditor
December 2004

Status of our reports to the authority

Our Annual Audit Letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Annual Audit Letters are prepared by relationship managers and appointed auditors and addressed to Members and officers. They are prepared for the sole use of the audited and inspected body, and no responsibility is taken by the Audit Commission or its appointed auditors to any Member or officer in their individual capacity, or to any third party.

Reports issued during 2003/04

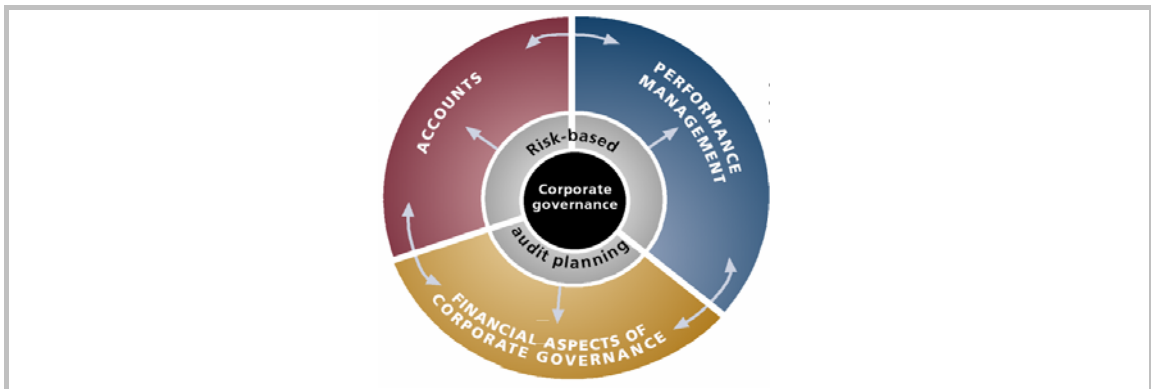
Report	Issued
Audit Plan	May 2003
Performance Information in the Strategy Plan 2004/07	November 2004
Auditor's Report to Northumbria Police Authority on its BVPP for 2004/05	November 2004
Data Quality	November 2004
Activity Based Costing (ABC)	November 2004
SAS 610 Letter	November 2004
Audit Opinion	November 2004
Final Accounts Memorandum	December 2004

Scope of audit

Audit

Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities. Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Exhibit 1.

EXHIBIT 1 THE THREE MAIN ELEMENTS OF OUR AUDIT OBJECTIVES



Accounts

- Opinion.

Financial aspects of corporate governance

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct and the prevention and detection of fraud and corruption.
- Legality of transactions.

Performance management

- Use of resources.
- Performance information.
- Best Value Performance Plan (BVPP).

The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.

Audit fees update

The following table sets out our latest estimate of the actual fee for 2003/04 on the basis that some work remains in progress.

Audit area	Fee per audit plan 2003/04	Actual fee 2003/04
Accounts	£16,000	£16,000
Financial aspects of corporate governance	£24,000	£24,000
Performance	£52,000	£52,000
TOTAL CODE OF PRACTICE FEE	£92,000	£92,000
Grant claim certification (1)	£10,000	£5,500
Additional voluntary work (under section 35)	Nil	Nil

(1) The grant claim audit continues until the end of 2004 and the actual fee reported is our current estimate of the likely fee for 2003/04 certification work.