

Annual Audit Letter

November 2006



# Annual Audit Letter

**Northumbria Police Authority**

**Audit 2005/2006**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

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 members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

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## The purpose of this letter

- 1 The purpose of this Annual Audit Letter is to summarise the key issues arising from the work that we have carried out during the year. Although this letter is addressed to the Members of the Authority, it is also intended to communicate the significant issues we have identified, in an accessible style, to key external stakeholders, including members of the public. The letter will be published on the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).
- 2 This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

## The responsibilities of the auditor and the Authority

- 3 We have been appointed as the Authority's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England, including Police Authorities.
- 4 As the Authority's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Authority achieving its objectives. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

## The scope of our work

- 5 Our main responsibility as your appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:
  - the Authority's accounts; and
  - whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 6 This letter summarises the significant issues arising from both these areas of work and highlights the key recommendations that we consider should be addressed by the Authority. A list of all reports issued to the Authority in relation to the 2005/06 audit is provided in the closing remarks section at the end of this letter.

## The audit of the accounts

- 7 We gave an unqualified opinion on the financial statements on 20 September 2006 in advance of the deadline of 30 September.
- 8 The accounts presented for audit were available on time and were supported by exemplary working papers. There were no significant issues from our work on the financial statements to bring to the Authority's attention.

## Use of resources

- 9 We are required to issue a conclusion on whether we are satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.
- 10 We are also required to assess how well police authorities manage and use their financial resources, providing scored judgements on the Authority's arrangements in five specific areas. This is known as the Police Use of Resources Evaluation (PURE), and was completed for the first time in 2006.

## Value for money conclusion

- 11 Our work on the VFM conclusion included the review of criteria agreed by the Audit Commission in relation to arrangements for:
  - monitoring and scrutiny of performance;
  - maintaining a sound system of internal control;
  - managing significant business risks;
  - managing and improving value for money;
  - ensuring that spending matches available resources;
  - managing performance against budgets; and
  - promoting and ensuring probity and propriety in the conduct of business.
- 12 We concluded that the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources and issued an unqualified VFM conclusion.

## Police Use of Resources Evaluation

- 13 We assessed the Authority's arrangements across five areas. Each area was scored from 1 to 4 (1= below minimum requirements - inadequate performance, 2 = only at minimum requirements - adequate performance, 3 = consistently above minimum requirements - performing well and 4 = well above minimum requirements - performing strongly). Our findings were made available to Her Majesty's Inspectorate of Constabulary (HMIC) to inform its baseline assessment. The results are summarised in table 1.

**Table 1 PURE scores**

The Authority performed well overall in our assessment

<b>Area</b>	<b>Score</b>	<b>Summary of findings</b>
Financial reporting	4	<b>Performing strongly</b> Good quality financial statements were produced for 2005/06 and working papers supporting the statements were comprehensive and well evidenced.
Financial management	3	<b>Performing well</b> The Authority's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities. There is very effective joint working between the Authority and the Force.
Financial standing	3	<b>Performing well</b> Sound financial control ensures that spending is contained within available resources, whilst delivering high levels of operational performance. The Authority has consistently set the lowest council tax precept of all police authorities in the country, and the rate of increase has also been the lowest nationally over the last three years. The Authority has significant reserve levels.
Internal Control	3	<b>Performing well</b> Risk management has improved but the developments are relatively recent, and need to be further embedded to deliver improvement. Arrangements are in place to maintain a sound system of internal control, and these have been strengthened by the recent work to support the Statement on Internal Control.
Value for money	3	<b>Performing well</b> Northumbria is one of the top performing police forces and costs compare relatively well with similar forces. There are a range of mechanisms to drive improvements in value for money, although improvements are still to be delivered in some key areas, notably in respect of estates management, and the continued implementation of new procurement arrangements.
<b>Overall</b>	<b>3</b>	

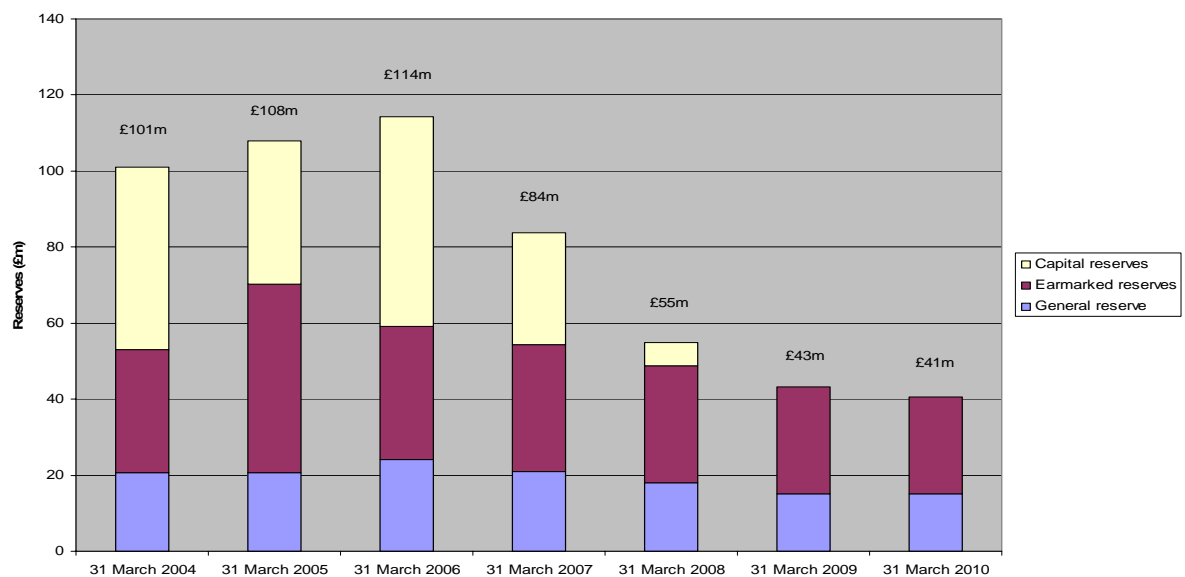
14 The scored judgements are linked to our responsibilities under the Code and whilst no issues were identified to impact on the unqualified VFM conclusion we issued, we did identify some areas for improvement, which the Authority is now responding to. The two most significant issues were:

- the delivery of the ambitious estates strategy, which has been subject to delays; and
- monitoring the planned utilisation of reserves, and reviewing reserve levels when considering the annual budget and council tax levels.

## Financial position

- 15 The Authority's financial position is sound, with a continuing increase in the level of reserves in recent years. The 2005/06 net revenue budget was £262.0 million, after an expected contribution from reserves of £2.5 million. Net revenue expenditure was considerably below budget and contributions were not needed from reserves, with £6.4 million transferred into reserves.
- 16 The Authority holds the highest level of reserves of all police authorities, and over the four years from 31 March 2002 to 31 March 2006, reserves have increased by a higher level than has been budgeted for each year. We recognise that the Authority is the sixth largest police authority, and may be expected to have higher than average reserve levels as a consequence.
- 17 The earmarked and capital reserves will principally finance future expenditure on an ambitious estates development strategy and mitigate the effects of future pension liabilities. There have been some delays in the use of reserves for valid reasons. Members have agreed plans to invest significant levels of reserves over the next few years.

**Table 2 Level of reserves**



Source: Financial Statements and Medium Term Financial Strategy 2007/08 to 2009/10

- 18 Members will need to ensure that the significant opportunities for service developments arising from available reserves are realised, reviewing reserve levels, utilisation and forward plans as part of the annual consideration of budget and council tax precepts.
- 19 The 2006/07 net revenue budget was set at £260.5 million, budgeting for a contribution from reserves of £5.5 million to support revenue expenditure. The latest monitoring report at the end of September, shows that the budget is on target, with a small underspend projected, after budgeted use of reserves.
- 20 The level of capital spend is increasing as the estates strategy is delivered. The 2006/07 capital programme is currently estimated at £35.1 million, compared to £21.8 million in 2005/06.
- 21 The Authority has recently prepared a medium-term financial strategy (MTFS) for 2007/08 to 2009/10. The strategy sets out forward plans to ensure funding of priorities and service developments, such as improving service delivery through neighbourhood policing, workforce modernisation, citizen focus and proposals arising from the recent review of protective services. The Authority has identified financial pressures from increases to pay and prices, limitations to central government funding and the continued implementation of the estates strategy. The MTFS includes a reserves policy which shows how the general reserve will be partially used to meet the revenue funding gap identified in the short-term, and how capital reserves will be utilised in the delivery of the estates strategy.
- 22 Use of reserves at this level will enable the general reserve to be maintained at the target level set out in the reserves policy of 5 per cent of gross expenditure. Additional efficiencies will also be identified to support the budget in the coming years.

### **Review of Crime Data Quality**

- 23 Reliable crime data is essential for a range of stakeholders and policymakers. It enables forces to make the right operational decisions and police authorities to properly scrutinise police performance and crime levels. Our review of the arrangements in place for recording and reporting crime data focussed on elements of data reported in the Police Performance Assessment Framework (PPAF).
- 24 Our conclusion was that the Force had continued to achieve very high standards and we assessed both the arrangements and the quality of data as 'Excellent'. Northumbria was the only Force to achieve ratings of excellent across all areas assessed this year.
- 25 The Force has achieved compliance through the clear demonstration of a strong commitment to good quality data at a senior level, attention to detail and the consistency of messages. There is a 'right first time' culture throughout the Force. The benefit of good intelligence gathering and swift analysis is confirmed by its effective use within the Force to manage performance and service development. There are high levels of compliance, good response times and customer focus, and very few incidents unresolved at the end of each shift (even at the busiest periods).

- 26 We did identify one area for improvement. The Force should record and analyse re-classifications of crime decisions, to identify and address at source any quality issues arising. An IT business case has been approved to make this improvement.

### **Activity Based Costing**

- 27 Activity Based Costing (ABC) is used to analyse the cost of policing, enabling comparisons over time, both within and between forces. We assessed the implementation of ABC by considering whether the Force has systems in place to produce an accurate submission of costing data to the Home Office.
- 28 Our review, which focused on the data submission for 2004/05, assessed the arrangements at the Force as 'Fair' and the quality of the data submitted as 'Fair'. Errors in the data return were attributed to the impact of internal force restructuring. In the past the Force has made limited use of ABC data, giving this area a lower priority, but has introduced new arrangements to make better use of the data from 2005/06. This includes:
- developing knowledge and skills of the costing model;
  - ensuring clear ownership and responsibility for the quality of data; and
  - moving to a rolling programme of activity data collection.
- 29 We reported our findings in May 2006, and an action plan was agreed to make improvements in the areas we recommended. The Audit and Service Improvement Committee received a progress update in November 2006, indicating that most of the recommendations had been addressed.

### **Other work**

- 30 To inform our work on the VFM conclusion and Police Use of Resources Evaluation, we have carried out specific project work in a number of areas. The overall conclusions, main areas identified for improvement and progress to date are set out in the table overleaf.

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**Table 3 Outcomes from our specific reviews**

The Authority and Force are responding well to the recommendations we have made for improvement.

Areas for improvement	Progress to date
<p><b>Performance management</b>  <i>Overall arrangements for performance management are strong, with sound processes throughout the Force and appropriate review by the Authority.</i></p>	
<p>Action was needed by the Force to continue the development of performance management arrangements, to drive further improvement.</p> <p>The Authority needed to consider and review performance at Area Command level as well as overall Force performance.</p>	<p>Business planning has been further developed, the links between business and financial planning are clearer, and an actions database has been developed to facilitate better monitoring of business plans. Performance management has been recognised as good practice in recent HMIC work.</p> <p>The Authority now receives information on Area Commands in its detailed quarterly briefing from the Force, enabling differences between areas to be explored.</p>
<p><b>Risk management</b>  <i>Action was needed to demonstrate an effective framework for risk management.</i></p>	
<p>Authority and Force risk management processes needed to be developed.</p> <p>The role of Members in the risk management process needed to be determined.</p>	<p>The Force has formalised its risk management arrangements and made significant and rapid progress, including developing risk registers across the Force.</p> <p>Members have been trained and quarterly risk management reports are considered by the Audit and Service Improvement Committee.</p>

Areas for improvement	Progress to date
<p><b>Estates management</b></p> <p><i>Estate management arrangements need to be improved and the delivery of the estates strategy has been much slower than anticipated.</i></p>	
<p>The various elements of the estates strategy need to be consolidated and updated.</p> <p>A framework is needed to ensure delivery of the estates strategy, including clarification of roles.</p> <p>Members must ensure that progress is being made and outcomes delivered against the estates strategy.</p>	<p>Consultants have been engaged to help inform the update of the estates strategy, which will be reported to the Authority early next year.</p> <p>A new framework is in place, and the respective roles of the Force, Authority and Gateshead Council will be clarified.</p> <p>Members will receive quarterly reports on progress against the estates strategy, to ensure that timely action can be taken if issues arise.</p>
<p><b>Procurement</b></p> <p><i>Good progress is being made towards providing an effective procurement function, with the aim of delivering efficiency savings from future contracts for goods and services.</i></p>	
<p>The Authority's procurement strategy needs to be updated and approved by Members.</p> <p>Members should receive progress reports against key procurement targets.</p>	<p>The procurement strategy is to be updated and approved by March 2007.</p> <p>The first annual report on procurement activity was presented in July 2006, identifying £1.1 million of procurement efficiencies.</p>

## Responding to the Civil Contingencies Act

- 31** The Civil Contingencies Act 2004 (the Act) aims to deliver a single framework for civil protection in the United Kingdom capable of meeting the challenges of the twenty-first century. Although national preparations are needed, the Act also places great emphasis on local preparedness, including the role of police, fire, local authorities, health bodies and government agencies. Most of the duties under the Act came into force from November 2005.
- 32** We carried out a cross-cutting strategic overview of arrangements within Tyne and Wear, with an initial focus on the preparedness of local authorities, police and fire. We concluded that these agencies have built on long standing local emergency planning arrangements, experience and co-operation, enabling a relatively smooth transition to the new arrangements under the Act. However, there is no room for complacency, as the Act has wide ranging implications and much work still needs to be completed.

- 33 We made a number of recommendations to the partners involved in our review, around the areas of co-operation, information sharing, risk assessment, emergency planning, business continuity and communications.
- 34 One key area was that the role of Members in relation to civil contingencies should be further developed through more regular briefings, awareness raising, and the delivery of appropriate training. A Members' seminar is being planned for early in 2007 to take this recommendation forward.

## Closing remarks

- 35 This letter has been discussed and agreed with officers. The letter will be presented at the Authority on 20 December 2006 and copies will be provided to all Authority Members.
- 36 Further detailed findings, conclusions and recommendations on the areas covered by our audit are included in the reports issued to the Authority during the year. These reports are listed in the following table.

<b>Report</b>	<b>Actual date of issue</b>
Audit Plan	April 2005
Annual Governance Report including	September 2006
Opinion on accounts and VFM conclusion	20 September 2006
PURE Report	October 2006
Performance Management	December 2005
Risk Management	March 2006
Activity Based Costing	May 2006
Crime Data Quality	May 2006
Procurement	September 2006
Estates Management	October 2006
Responding to the Civil Contingencies Act	October 2006
Annual Audit Letter	November 2006

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**District Auditor**

November 2006