

Annual Audit Letter

November 2007



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Northumbria Police Authority

Audit 2006/07

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.
- 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, 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.

Status of our reports to the Authority

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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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

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Summary

Key messages

- 1 The Force and Authority achieve high levels of performance and have a strong financial position. Although there are challenges and financial risks arising from a major change programme, the Force and Authority currently manage these risks well and work effectively together to achieve their common objective of improving policing for local people.
- 2 The Authority's accounts were presented for audit on time and were supported by comprehensive working papers. I issued an unqualified opinion on 24 September 2007.
- 3 There are sound arrangements for securing economy, efficiency and effectiveness in the use of resources and I issued an unqualified Value for Money Conclusion on 24 September 2007.
- 4 The Authority and Force have improved their performance in our Police Use of Resources Evaluation (PURE), particularly in relation to financial standing and value for money, and our overall assessment was the highest possible score of 4, performing strongly.
- 5 The Force are engaged in a major programme of change including implementing neighbourhood policing, workforce modernisation, improved protective services, responding to changes in the management of police information, delivering the estates strategy and considering options for increased collaboration. The major challenge for the Force is to deliver these initiatives whilst maintaining and continuing to improve its already high level of performance.
- 6 The Authority provides strong and effective oversight of the Force, founded on strong working relationships and good partnership working. The main challenges for the Authority are to deliver the challenging targets set out in the Medium Term Financial Strategy, to monitor the implementation of the estates strategy, and to continue the proactive work on risk management.

Purpose, responsibilities and scope

- 7 This letter provides an overall summary of the Audit Commission's assessment of Northumbria Police Authority, based on audit work performed in relation to the accounting period ending 31 March 2007. Where relevant, this work has included assessment of the arrangements in place in the Police Force, as well as the Authority.
- 8 I have addressed this letter to members as it is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. During the course of the audit, I have made recommendations to assist the Authority in meeting its responsibilities.
- 9 This letter also communicates the significant issues to key external stakeholders, including members of the public. This letter will be published on the Audit Commission website at www.audit-commission.gov.uk. In addition, the Authority is planning to publish it on its website.
- 10 As your appointed auditor I am responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, I am required to review and report on:
 - the Authority's accounts;
 - whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
 - how well the Authority has managed its resources (the Police Use of Resources scores).
- 11 The reports issued to the Authority relating to the 2006/07 audit are listed at the end of this letter.

Use of resources

Value for money conclusion

- 12 I am required to conclude whether I am 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 conclusion.
- 13 I concluded that the Authority did have proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources and reported this in my opinion on the 2006/07 financial statements on 24 September 2007.

Review of police data quality

- 14 As part of our work on the value for money conclusion, we carried out a review of police data quality, considering whether the Authority has proper arrangements in place to ensure the quality of key performance data, and whether these arrangements are being applied in practice. A detailed report supporting the assessment and highlighting areas for improvement was issued to the Authority in May 2007. This report was also shared with the Home Office.
- 15 On a scale of poor, fair, good or excellent, I concluded that corporate arrangements in the Force for data quality were good, and the arrangements at the Authority were good. Results of specific testing of data assessed both crime data and user satisfaction data as excellent.

Police use of resources scores

- 16 I have assessed how well the Authority and Force manage and use financial resources by providing scored judgements on the arrangements in five specific areas. This is known as the Police Use of Resources Evaluation (PURE). Each area was scored from 1 to 4 (1 = inadequate performance, 2 = adequate performance, 3 = performing well and 4 = performing strongly). A detailed report supporting the assessment and highlighting areas for improvement was issued to the Authority in October 2007.
- 17 The Authority and Force have improved their performance in our PURE assessment, particularly in relation to financial standing and value for money, and our overall assessment was the highest possible score of 4, performing strongly. In every area of our assessment, achievement was well above the minimum requirements, with examples of notable practice identified in relation to the Medium Term Financial Strategy (MTFS), risk management, the assurance framework and value for money.

Table 1 Police use of resources scores

Element	Assessment
Financial reporting	3 out of 4
Financial management	3 out of 4
Financial standing	4 out of 4
Internal control	3 out of 4
Value for money	4 out of 4
Overall assessment of the Audit Commission	4 out of 4 Performing strongly

(Note: 1 = lowest, 4 = highest)

- 18 We identified many strengths in Force and Authority arrangements.
- The Authority delivers value for money. Northumbria is one of the highest performing police forces, the Authority levies the lowest council tax precept of all police authorities and costs (2006/07) compare well with similar Forces and are below average in most cases. The Force has achieved year on year improvement in many areas, a considerable achievement given the already high levels of performance.
 - The 2006/07 financial statements were comprehensive and well evidenced, and the statements were free from significant error.
 - The Authority has a strong financial position, with reserve levels of £108 million at 31 March 2007, which includes £49 million currently earmarked to support capital investment. The Authority is well placed to deliver its ambitious estates strategy and manage the potential risks from changes to the national funding formula.
 - The Authority has comprehensively addressed the issues raised last year to improve the MTFS and to review reserve levels and their planned utilisation as part of the annual budget and council tax level considerations (reserves are planned to reduce to £27.9 million by 31 March 2010).
 - Risk management arrangements have been developed as part of the performance management framework.

- 19 The key actions for Police Authority members in ensuring a continued focus on effective use of resources are:
- robust monitoring will be needed to ensure that the challenging plans set out in the Medium Term Financial Strategy and annual budget are delivered;
 - overseeing the delivery of the plans to improve service delivery without an adverse impact on current performance, delivering improvements in the estate, and identifying and securing efficiencies facilitated through implementation of the new procurement strategy; and
 - continue to develop risk management arrangements by ensuring proactive monitoring of the Authority's strategic risk register by the Audit and Scrutiny Committee.

National Fraud Initiative

- 20 The National Fraud Initiative is a computerised data matching exercise designed to identify overpayments to suppliers and benefit claimants and to detect fraud perpetrated on public bodies. The referrals from the current exercise were released to participating bodies earlier in the year, and the data matches are currently being investigated and followed up by Internal Audit.

Specific risk-based work

- 21 To inform our conclusions on use of resources, we carried out specific pieces of risk-based work. Key findings and conclusions were as follows.
- We identified examples of good management of **partnerships** at Area Command level, but a need for more oversight of the effectiveness of partnership working at Force level. There is also scope to make more reference to the impact of partnership working in Force and Authority business and strategic plans, performance monitoring and scrutiny arrangements.
 - In response to the **Bichard Inquiry** findings, the Force has developed a plan to implement all aspects of the national code of practice on the Management of Police Information (MoPI). Existing performance management arrangements and working practice provide a firm foundation for implementation, but the implementation plan is necessarily complex. The Force needs to develop key milestones to enable effective monitoring of progress against the MoPI implementation plan and consider the potential impact of MoPI on workload as a strategic risk.
 - We carried out an online survey of ICT staff and users to assess the extent to which the Force guarded against the increased **ICT risks** from issues such as computer viruses, IT fraud, hacking, invasion of privacy and downloading of unsuitable material from the internet. The survey results were generally positive about the Force's arrangements in this area.

Audit of the accounts

- 22** I issued an unqualified opinion on the Authority's accounts on 24 September 2007. Working papers and accounts were once again of a high standard. The Authority complied with the new requirements contained in CIPFA's Statement of Recommended Practice (SORP) 2006.
- 23** Before giving my opinion, I reported to Authority acting as 'those charged with governance' on the issues arising from the 2006/07 audit. My report was considered by the Authority on 19 September 2007.
- 24** The key issues reported were:
- a significant adjustment to the financial statements to reflect the correct accounting treatment for Home Office Pensions Top Up Grant; this adjustment was required following revised guidance and had a neutral effect on the income and expenditure account; and
 - the need to review some areas of financial and accounting practice including banking and investment arrangements and depreciation policies.

Whole of government accounts

- 25** Central government embarked on a programme leading to the preparation of consolidated accounts for the 'whole of government', including local government. The Authority is required to submit a 'consolidation pack' to the Department for Communities and Local Government (DCLG) and the auditor is required to undertake a range of procedures and report on the pack.
- 26** There were no significant issues as a result of our audit processes and our audit report was issued and the pack submitted to the DCLG on 28 September 2007.

Closing remarks

- 27 We have discussed and agreed this letter with officers, and issued it to all members of the Authority. We will present the letter at the Authority meeting on 19 December 2007.
- 28 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Authority during the year.

Table 2 Reports issued

Report	Date of issue
Audit plan	April 2006
Review of police data quality	May 2007
Report to those charged with governance	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Final accounts report	October 2007
Use of resources	October 2007
Annual audit letter	November 2007

- 29 The Authority and Force has taken a positive and constructive approach to our audit, and I wish to thank officers for their support and co-operation during the audit.

Lynne Snowball
District Auditor

November 2007