

Annual Audit Letter

Northumbria Police Authority

Audit 2009/10

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 has two elements:

- **the audit of your financial statements (pages 2 to 4); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 5 to 7).**

Audit opinion and financial statements

1 I issued an unqualified opinion on the Authority's financial statements on 22 September 2010.

Value for money

2 I concluded that the Authority had adequate arrangements in place to secure value for money.

Current and future challenges

3 The Authority faces significant challenges in the current and coming years, from both the economic conditions nationally and proposed changes to governance arrangements. The Authority is well placed to meet these challenges. It is already updating its financial strategy and has made some changes to governance arrangements and it knows it needs to take significant action in the short term to meet the financial constraints.

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 22 September 2010, well within the statutory target date.

Overall conclusion from the audit

4 The statements presented for audit, and supporting working papers, were of a good standard. Several amendments were made as a result of the audit, including:

- the deletion of a prior period adjustment of the air support unit arrangements which ended on 31 March 2009. The adjustments (to remove the Authority's share of the second helicopter and to reflect the new arrangement with Durham Police Authority) were not material. They should have been accounted for in 2009/10 rather than restating last year's accounts;
- corrections of minor errors within the Cash Flow Statement and Statement of Total Recognised Gains and Losses; and
- removal of a subjective analysis of income and expenditure from its location within the core financial statements. This analysis is not part of the core financial statements as defined by the SORP and, if included, must be shown elsewhere.

5 None of the amendments affected the general reserve balance or other resources available to the Authority.

6 I gave an unqualified opinion on the Authority's statements on 22 September 2010.

Financial reporting

7 My letter last year reported that the Authority had recovered some of its deposit of £5.2m with Heritable, a wholly owned UK subsidiary of Landsbanki, an Icelandic bank, and was expecting a further payment in December 2009.

8 Since then, the amount recovered has exceeded early estimates, with dividends of £1.85m received. The Authority is estimating it will recover almost 90 per cent of its investment by March 2012. These estimates are being kept under review, to ensure the expected loss is understood and properly accounted for.

9 The review of the stables PFI scheme against the international financial reporting standards confirmed that it did not need to be brought on to the Authority's balance sheet in 2009/10. Other aspects of the new standards will apply from 2010/11, and the Authority is making progress against its plans for implementation. We are expecting restated 2009/10 accounts early in 2011. This will allow us to complete our audit well before the deadline for 2010/11 draft statements, so any issues can be addressed before Members approve the draft statements.

Internal control

10 My testing of controls over journals, which transfer balances within the ledger, identified that journals are not always authorised as required by financial procedures.

11 My audit did not identify any accounting errors from this. Many of the unauthorised journals were for small amounts, and there are compensating access controls. Officers are reviewing arrangements to ensure that authorisations follow financial procedures.

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

12 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.

13 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 to inform my 2009/10 conclusion.

14 I report the significant findings from the work I have carried out to support the vfm conclusion.

VFM conclusion

15 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.

16 This is a summary of my findings.

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

17 I issued an unqualified conclusion stating that the Authority had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

18 The Authority has managed its finances effectively, and has delivered efficiencies and improved outcomes. There have been some improvements in the Authority's arrangements and performance. These include:

- increased detection rates;
- reviewing and reconfiguring services, such as forensics; and
- ensuring buildings are sustainable.

19 The Authority has also identified scope for further improvement, including:

- further reviewing costs to secure cashable savings;
- reducing energy consumption;
- ensuring standing orders and financial instructions are regularly reviewed and updated; and
- extending partnership working.

20 Further details of my review are included in Appendix 2.

Approach to local value for money work from 2010/11

21 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.

22 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.

23 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.

Current and future challenges

Financial position

24 The government has made it clear that the public sector, including police authorities, will have to reduce expenditure considerably because of the economic conditions nationally.

25 Reductions in funding have already begun, with announcements of over £3.5m less grant available in 2010/11, announced after budget approval. The Authority has identified savings to match these reductions, without significant impact on operations. Further grant reductions may occur in year, and are likely from 2011/12 onwards. The government confirmed in its Comprehensive Spending Review that nationally police grant would be reduced by 20% in real terms over the next four years. However, the Authority will not know the exact implications until the provisional settlements are published, possibly not until December 2010.

26 Both the scale and timing of the likely reductions mean that significant action is required quickly. Whilst the Authority is in a strong position to manage budget restraints, given its general reserves to support spending in the short term, it recognises that this is not sufficient. The Authority is currently updating its forecasts and carrying out detailed business reviews to assess how it can balance its 2011/12 budget.

Future developments

27 The Authority reviewed and revised its governance arrangements earlier this year. This strengthened arrangements and clarified the roles of members. The government has now published its White Paper on proposals for the future of policing. While it is too early to know what the new governance arrangements will be, they are likely to be substantially different to existing arrangements.

28 The Authority will need to ensure that it continues to manage and improve performance during this period of change.

Closing remarks

29 I have discussed and agreed this letter with the Chief Executive and the Treasurer and presented it at the Authority on 15 December 2010 and will provide copies to all members.

30 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
Audit plan	April 2009
Opinion Plan	April 2010
Annual Governance Report	September 2010
Opinion on the financial statements	September 2010
VFM conclusion	September 2010
Annual audit letter	October 2010

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

Steve Nicklin
District Auditor
November 2010

Appendix 1 – Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	64,950	64,950	0
Value for money	28,750	28,750	0
Whole of government accounts	2,700	2,700	0
Total audit fees	96,400	96,400	0
Non-audit work	0	0	0
Total	96,400	96,400	0

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.

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