

# **Police Use of Resources Evaluation -Feedback**

**Northumbria Police Authority**

**Audit 2005/2006**

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## Introduction

- 1 This report presents the results of the 2005/06 review of use of resources at Northumbria Police Authority (the Authority). As the Audit Commission's appointed auditor to the Authority, we undertook this review during the period April 2006 to June 2006, with an update for financial reporting in September 2006, as part of our responsibility to examine the economy, efficiency and effectiveness of the Authority's use of resources under section 5(1)(e) of the Audit Commission Act 1998, and in accordance with the Commission's Code of Audit Practice and Standing Guidance for Auditors.
- 2 We have completed our review in accordance with the methodology and guidance issued by the Audit Commission (the Commission). The results have been subject to internal and national quality assurance arrangements, designed to ensure compliance with the methodology and guidance, and to promote consistency of assessment between appointed auditors.
- 3 This report summarises the approach taken and the results of the assessment. It also highlights areas for improvement based on the criteria issued by the Commission.
- 4 The aim of our review is to provide authorities and forces with a review of their arrangements for controlling resources, including their public accountability and financial frameworks.
- 5 In order to minimise any potential overlap between this assessment and the areas covered by HMIC in its baseline assessments (in particular in Domain 6D, Management of Financial and Physical Resources), we have asked authorities and forces only to provide self-assessment information once. We are also seeking to rely on the judgements of HMIC wherever possible.

## Approach and Scoring

- 6 Each judgement area (theme) consists of a number of key lines of enquiry and areas of audit focus and evidence. There are also descriptions of performance against each key line of enquiry showing performance at levels 2, 3 and 4. These translate into the following judgements.
  - 1 = below minimum requirements – inadequate performance
  - 2 = only at minimum requirements – adequate performance
  - 3 = consistently above minimum requirements – performing well
  - 4 = well above minimum requirements – performing strongly
- 7 The Commission will determine the overall use of resources score by combining the auditor's separate scores for each of the themes covered. Our final judgement, including the component grades, will be shared with HMIC and will inform the grade for the baseline framework Domain 6D.

## Summary of Scores

8 The score for each theme is as follows.

Theme and key line of enquiry	KLOE score
Financial reporting <ul style="list-style-type: none"> <li>• Annual accounts.</li> <li>• Promotion of external accountability.</li> </ul>	
Theme score	4
Financial management <ul style="list-style-type: none"> <li>• Medium-term financial strategy and capital programme.</li> <li>• Management of performance against budgets.</li> <li>• Management of the authority's and force's asset base (including their estate and vehicle fleet) and their IM&amp;T service.</li> </ul>	
Theme score	3
Financial standing <ul style="list-style-type: none"> <li>• Management of spending within available resources.</li> </ul>	
Theme score	3
Internal control <ul style="list-style-type: none"> <li>• Management of significant business risks.</li> <li>• Maintenance of a sound system of internal control.</li> <li>• Arrangements to ensure probity and propriety.</li> </ul>	
Theme score	3
Value for money <ul style="list-style-type: none"> <li>• Achievement of VFM.</li> <li>• Management and improvement of VFM.</li> </ul>	
Theme score	3

## Main Conclusions including Notable Practice

- 9 The overall conclusion is that the Authority and Force performs well overall and is consistently above minimum standards across all areas of the use of resources assessment. A detailed summary of our findings is given in the next section of this report. This section sets out key findings in relation to each theme, areas for improvement and areas of notable practice.
- 10 Financial reporting is assessed as performing strongly. Working papers supporting the 2005/06 financial statements were comprehensive and well evidenced, and the statements were free from significant error.
- 11 Financial management is assessed as performing well. The Authority's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities. There is evidence of very effective joint working between the Authority and the Force.
- 12 Financial standing is strong. 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.
- 13 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. 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 three years. 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.
- 14 The Authority performs well in our assessment of internal control. The developments in risk management 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.
- 15 The Authority performs well in our assessment of value for money. 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 and fleet management, and the further embedding of new procurement arrangements.

16 Areas of notable practice are highlighted below.

- The quality of the working papers supporting the financial statements was exemplary.
- There are aspects of financial management which are exceptionally strong, including the work being undertaken within the Force to link business and financial planning, and the way in which the Authority and Force manage performance against budgets.
- The arrangements put in place to underpin the 2005/06 Statement on Internal Control.

## **The Way Forward**

17 The results of this work have been discussed and agreed with the Authority. Our final judgement will be shared with HMIC, and a summary will be included in your 2005/06 Audit Letter.

# Summary of Key Findings and Areas for Improvement

## Financial Reporting

- 18 The authority produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers, and promotes external accountability.

### Strengths

- 19 The key strengths identified were as follows.
- Financial statements were of very good quality, and there were no errors of significance or issues to report.
  - Arrangements for Member approval were sound.
  - The accounts were supported by exemplary working papers and officers responded to queries effectively.
  - The Authority produces and publishes the full range of documents to promote external accountability, including the Strategy Plan, Local Policing Plan, Area Command Plans. In addition, a wide range of external documents are made available, such as the HMIC Baseline Assessment and Annual Audit Letter.
  - All non-exempt agendas and minutes are available on-line.

### Areas for Improvement

- 20 One area for improvement was identified.
- The Authority website includes a wide range of information, but is in need of a refresh as documents could be better indexed and referenced to improve accessibility. Many documents are available through agendas and minutes on-line, but some key documents could be specifically highlighted on the Authority website.

## Financial Management

- 21 The Authority's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities. There are aspects of this which are exceptionally strong, including the work being undertaken within the Force to link business and financial planning. Another area of particular strength is the way in which the Authority and Force manage performance against budgets. There is evidence of very effective joint working between the Authority and the Force, with very detailed work undertaken by the Force and effective oversight and support provided by the Authority.

- 22 The Authority and Force manage their asset base (including their estate and vehicle fleet) and their IM&T (Information Management & Technology) service. The assessment in this area has been limited by the fact that improvements are still to be delivered in estates management and fleet management. Further positive outcomes need to be delivered in these areas for the overall assessment to improve.

### **Strengths**

- 23 The key strengths identified were as follows.
- The Medium-Term Financial Strategy 2006/07 to 2008/09 and the Annual Budget for 2006/07 clearly set out the financial strategy.
  - Budgeting is underpinned by extensive Force processes to link business and financial planning, with growth items and project proposals underpinned by business cases.
  - Efficiency targets are consistently exceeded.
  - Our findings support the view that Force expenditure is closely scrutinised, justified and challenged – savings are identified and delivered and growth is targeted at key policing priorities.
  - Our review of estates identified that there is a good assessment of need and the availability of significant levels of resources in reserves to support the estates strategy.
  - Force budget monitoring arrangements are strong.
  - The Force Director of Finance is part of the senior management team, and Business Managers and Financial Advisors with financial skills are in place in area commands and central departments.
  - There is monthly budget monitoring at Force level and quarterly monitoring by the Authority, with a history of spending being managed within budgets.
  - Fleet management has been the subject of extensive review and changes and improvements are being made.
  - The Force has a strong IM&T service, which plays a significant role in national developments.
  - There is effective partnership between the Force and the Authority.

### **Areas for Improvement**

- 24 The key areas for improvement identified were as follows.
- Delivery of the estates strategy development programme, for which significant levels of reserves have been earmarked.
  - Although there is reporting to the Authority on estates, fleet and IM&T, there is scope to demonstrate more rigorous scrutiny and ensure that outcomes are achieved.

## Financial Standing

- 25 The Authority manages its spending within the available resources. 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 over the last three years.
- 26 Reserves have consistently increased by a higher level than has been budgeted. The increase in overall reserves was £31.4 million in the four years ending 31 March 2006. Of this increase, £3.1 million relates to movements in capital grants unapplied and capital receipts unapplied. The remainder relates to revenue outturn savings additional to budgeted contributions to reserves. There have been various reasons for this, including lower revenue contributions to capital expenditure as a result of capital programme slippage, savings in insurance, additional efficiencies achieved in the year, and securing additional grant funding. The unintended effect of this has been that significant levels of resources each year have been added to reserves rather than supporting in year expenditure as budgeted for.
- 27 General reserves are now the highest of all police authorities, and earmarked reserves are the highest of all police authorities with the exception of the Metropolitan Police. 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. In total, there are £114.4 million of resources available, which can be analysed as follows.

	£m
General reserve	24.0
Other revenue reserves	35.0
Capital development reserve (revenue funds set aside for the Estates Strategy)	31.1
Capital grants unapplied and capital receipts unapplied	24.3
<b>Total</b>	<b>114.4</b>

- 28 Reserve levels have provided resources to support future expenditure on an ambitious estates strategy and cushion the future effects of pension liabilities. Progress in delivering the estates strategy has been much slower than anticipated, partly as a result of delays caused by discussions on police force restructuring and partly by difficulties in identifying appropriate sites for development. Officers have produced an analysis that shows that reserves are projected to reduce from £114.4 million at 31 March 2006 to £42.3 million by 31 March 2009, mainly as a result of delivery of the estates strategy and the agreed use of £3 million per annum of the general reserve to support the revenue budget in the 3 years from 1 April 2006. The Treasurer plans to present this analysis to Members as part of the Authority's medium-term financial strategy.

- 29 There are additional financial pressures for the Authority to consider, such as responding to the challenge of improving protective services, and in addition, the police funding formula has changed significantly and, although protection is in place in the short-term, it is unclear how long this will last. Reserve levels will provide the Authority with additional flexibility to respond to these issues in the short-term.
- 30 Members will need to ensure that the significant opportunities for service developments arising from delivery of the estates strategy are realised, reviewing reserve levels, utilisation and forward plans as part of the annual consideration of budget and council tax precepts.

## Strengths

- 31 The key strengths identified were as follows.
- There is strong evidence that the Force/Authority makes good use of its resources, in terms of identifying savings and efficiencies and justifying growth linked to strategic priorities.
  - Council tax levels are the lowest of all police authorities, and the rate of increase in recent years has also been the lowest.
  - The Authority has resources available to support the estates strategy and future pension costs.
  - The position is set out in the medium-term financial strategy.

## Areas for Improvement

- 32 The key area for improvement identified was as follows.
- The projections for reserve levels over the next three years, provided for this review, should formally be reported in the medium-term financial strategy.
  - Members should closely monitor the planned utilisation of reserves to deliver the ambitious estates strategy. Reserve levels and planned utilisation should be reviewed as part of annual budget and council tax level considerations, with alternative options available to the Authority outlined as part of the process.

## Internal Control

- 33 The Authority and Force manage their significant business risks. The developments in risk management are relatively recent, and need to be further embedded to improve the arrangements in place.
- 34 Areas of strength include the arrangements in place to maintain a sound system of internal control, and these have been improved by the recent work on the Statement on Internal Control.
- 35 Another area of particular strength is the arrangements in place that are designed to promote and ensure probity and propriety in the conduct of business.

## **Strengths**

**36** The key strengths identified were as follows.

- The Force and Authority have put in place arrangements for risk management.
- The Force has formalised its risk management arrangements over the last year, and has made considerable progress in a short space of time.
- The Authority and Force have strong systems of internal control.
- There is an effective internal audit function and the Authority has an audit committee (the Audit and Service Improvement Committee).
- Internal Audit's findings and conclusions are that the systems of internal control are generally sound.
- Arrangements for the Statement on Internal Control have been strengthened for 2005/06 with an internal control group, a framework approved by the audit committee, and reports on outcomes covering IA work, risk management, the results of an assurance statement exercise with managers, all feeding into the production of the Statement on Internal Control.
- The Authority has adopted the code of conduct for all Members, has arrangements in place for a register of interests and a register of gifts and hospitality, and has a Standards Committee. Arrangements are also in place for both police officers and staff.
- Policies and procedures are in place to identify and follow up fraud and corruption and whistle-blowing.

## **Areas for Improvement**

**37** The key areas for improvement identified were as follows.

- Further work is needed to embed the risk management arrangements.
- Further training for Authority Members in risk management.
- The continued monitoring of key strategic risks on a quarterly basis by the Authority.
- Partnership risks will need to be picked up more rigorously as risk management arrangements are developed.
- Standing orders and financial regulations need to be updated.

## Value for Money

- 38 The Authority and Force currently achieve good value for money, and there are arrangements in place to manage and improve value for money. Northumbria is one of the better performing police forces and costs compare relatively well with similar forces. There are a range of mechanisms to drive improvements in value for money, including business and financial planning, business cases to support growth and investment decisions, the delivery of efficiency savings, the development of procurement and specific projects to bring about improvements.
- 39 Improvements are still to be delivered in some key areas, notably in respect of estates and fleet management, and the further embedding of new procurement arrangements. Plans are in place in all of these areas, but outcomes still need to be fully achieved.

## Strengths

- 40 The key strengths identified were as follows.
- There is clearly a positive relationship between costs and performance. Northumbria is one of the better performing forces in the country. The Force was ranked good or excellent in 24 areas out of 27 in HMIC's Baseline Assessment 2005, and costs compare favourably.
  - The Force's overall and unit costs are generally relatively low, but not the lowest, in comparison to the Most Similar Forces (MSF) group.
  - A low spend on other staff salaries is being addressed in part by the management of offenders project which will result in an increase in support staff and a reduction in police officer establishment, whilst improving the number of officers in operational positions.
  - Spending decisions reflect national and local priorities. The integrated corporate planning process links operational planning with financial planning. Plans are supported by the Medium-Term Financial Strategy and the annual budget setting process, which takes account of high priority growth areas that are required to meet the strategic priorities.
  - The Authority and Force take account of the short and long-term costs of their actions, as evidenced by the use of business cases to inform growth and investment decisions.
  - The efficiency steering group leads on the Gershon agenda, efficiency planning and Activity Based Costing (ABC). Current initiatives include the management of offenders project which will release police officers to front line duties, workforce modernisation which aims to release police officer time, and the e-services project which includes a wide range of improvements.
  - Efficiency savings in 2005/06 are estimated to be double the target of £8 million. The Force has exceeded targets in the previous four years.

- The procurement and part of the estates functions have recently been transferred to the Force to promote improved service delivery, and benchmarking is undertaken in a wide range of areas. Procurement arrangements are being developed and improved. Procurement savings of £1.075 million were identified in 2005/06.

## **Areas for Improvement**

**41** The key areas for improvement identified were as follows.

- Costs compare relatively favourably particularly when viewed against high levels of performance, but are not the lowest, and there may be scope to provide even more cost effective services.
- Transport and estates costs are above MSF average. Estates costs can be partially attributed to the geography of Northumberland and an ageing estate that is subject to a significant planned programme of investment. Transport costs are again partially a result of the geography of Northumbria but the Force has reviewed fleet management resulting in a move to diesel over the next three years.
- Improvements are still to be delivered in some key areas, notably in respect of estates and fleet management, and the further embedding of new procurement arrangements.
- The Force has made limited use of ABC data. Improvements are being introduced, such as a rolling programme of surveys, and this is leading to more use of ABC data. The intention is that the Efficiency Steering Group will drive further improvements in this area.
- The Authority and Force had a programme of best value reviews that has been dormant since the neighbourhood policing review in August 2005. The Force has a number of other review processes and mechanisms, but it is not yet clear what will replace the review programme or how the Authority role will be redefined.