

Annual Governance Report

Northumbria Police Authority

Audit 2007/08

September 2008



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Status of our reports

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

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

Purpose

- 1 This report summarises the findings from our 2007/08 audit, which is substantially complete. It identifies the key issues that you should consider before we issue our opinion, conclusion and certificate.
- 2 This report includes only matters of governance interest that have come to our attention in performing our audit. Our audit is not designed to identify all matters that might be relevant to you.

Financial statements

- 3 Our work on the financial statements is substantially complete, and we propose to issue an unqualified audit opinion.
- 4 In our view, the Annual Governance Statement has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit.

Value for Money

- 5 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. We propose issuing an unqualified conclusion on the use of resources.

Next steps

- 6 We ask the Authority to:
 - consider the matters raised in the report before approving the financial statements;
 - approve the representation letter on behalf of the Authority before we issue our opinion, conclusion and certificate.

Financial statements and Annual Governance Statement

- 7 The Authority's financial statements and Annual Governance Statement are important means by which the Authority accounts for its stewardship of public funds. As Authority members you have final responsibility for the financial statements and Annual Governance Statement. It is therefore important that you consider our findings before you adopt the financial statements and the Annual Governance Statement.
- 8 In planning our audit we identified specific risks and areas of judgement that we have focused on during our audit. We report to you the findings of our work in those areas.
- 9 In addition, auditing standards require us to report to you:
- the draft representation letter which we are asking management and you to sign;
 - our views about the Authority's accounting practices and financial reporting;
 - errors in the financial statements;
 - any expected modification to our report;
 - weaknesses in internal control; and
 - certain other matters.

Key areas of judgement and audit risk

- 10 In planning our audit we identified key areas of judgement and audit risk that we have considered as part of our audit. Our findings are set out in Table 1.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
Risks arising from changes in the key staff preparing Northumbria Police Authority's financial statements.	You ensured that there was continuity of involvement in the preparation of the financial statements, and provided support to the new Accountant. There was a good evidence trail to follow and the history of producing well supported financial statements was continued.

Financial statements and Annual Governance Statement

Issue or risk	Finding
Risks if errors identified during the audit of the 2006/07 statements, which were corrected, recur or issues agreed for further action are not followed up. For example, issues in relation to accounting for investment income pooled with Gateshead Council, and the treatment of depreciation.	Tests were undertaken to ensure the correct treatment of areas where errors were identified or further action identified from the 2006/07 audit. The treatment of funds held on trust did not fully comply with previously agreed accounting treatment, but this has been corrected in the revised statements.
Risks arising from changes to technical requirements in the 2007/08 statements; in particular, changes to the 2007 Statement of Recommended Practice (SORP), for example, in respect of financial instruments, and the requirement to produce an Annual Governance Statement for the first time.	<p>We had established an ongoing dialogue with officers, and technical questions were discussed on a regular basis, including the impact of new requirements arising from the SORP.</p> <p>We reviewed the Annual Governance Statement and supporting evidence during our audit.</p> <p>No issues of significance arose from our work.</p>

- 11 Working papers were provided promptly and were once again of a high standard.
- 12 We have found officers helpful and responsive to the queries we have raised, and we appreciate the assistance that has been provided in enabling us to undertake our audit work effectively. In particular, we feel that the Sharepoint Site which was developed to help manage queries arising from the audit has operated very well and contributed to improved arrangements.
- 13 Our view remains that the financial statements continue to be of a high standard and are well supported by working papers.

Draft representation letter

- 14 Before we issue our opinion, auditing standards require us to obtain from you and management, written representations that:
 - you acknowledge your collective responsibility for preparing financial statements in accordance with the applicable financial reporting framework;
 - you have approved the financial statements;
 - you acknowledge your responsibility for the design and implementation of internal controls to prevent and detect fraud and error;
 - you have told me the results of your assessment of the risk that the financial statements might be materially misstated because of fraud;

- you have told me any actual or suspected fraud by management, employees with significant roles in internal control or others (where the fraud could have a material impact on the financial statements);
 - you have told me of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
 - you have told me about all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements;
 - you have assessed the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Authority where relevant to the fair value measurements or disclosures;
 - you are satisfied that all related parties requiring disclosure in the financial statements have been disclosed and that the disclosure is adequate;
 - you are satisfied that the individual or collective impact of errors we have identified, but that you have not corrected, is not material; and
 - cover areas where other sufficient appropriate evidence cannot reasonably be expected to exist, for example the completeness of the disclosure of contingent liabilities.
- 15 We do not require any specific representations from you about issues arising from our work.
- 16 Appendix 1 contains the draft of the letter of representation we seek from you.

Accounting policies and financial reporting

- 17 We considered the qualitative aspects of your financial reporting and have not identified any significant issues to raise with you.

Errors in the financial statements

- 18 We identified a small number of errors in the financial statements and reported these to management. Management has agreed to adjust the financial statements as set out in Appendix 2. Guidance in relation to pensions was only clarified after the submission of the accounts for audit, and we do not consider any of the issues that have arisen from the audit to be significant.
- 19 We are reporting these issues to you, to enable you to discharge your governance responsibilities and approve the revised financial statements.

The audit report

- 20 We plan to issue an unmodified report including an unqualified opinion on the financial statements. Appendix 3 contains a copy of our draft report.

Financial statements and Annual Governance Statement

Material weaknesses in internal control

- 21 We have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.
- 22 We have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made. We have reported only those matters which have come to our attention because of the audit procedures we have performed.

Other matters

- 23 There are no other matters that auditing standards require me to report to you.

Value for money

- 24 We are required to conclude whether the Authority put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. We assess your arrangements against criteria specified by the Commission. Our conclusion is informed by our work on Use of Resources, a scored judgement reported to the Audit Commission.
- 25 We have assessed the arrangements of the Authority as adequate in all specified areas and we therefore propose to issue an unqualified conclusion.

Formal audit powers

26 We have:

- a power to issue a public interest report. We do so where we believe this is necessary to draw a matter to your attention, or to that of the public;
- a power to apply to court for a declaration that an item in the Authority's accounts is contrary to law;
- a power to issue an advisory notice. An advisory notice requires the Authority to meet and consider the notice before:
 - making a decision that might give rise to unlawful expenditure; or
 - taking an unlawful course of action that would give rise to a loss; or
 - making unlawful entry in the accounts; and
- a power to seek judicial review of a decision of the Authority.

27 We have not and do not propose to exercise these powers.

Independence

- 28 The Code of Audit Practice and the APB's Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.
- 29 We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 30 We communicate to you:
- any relationships between us and the Authority, its members and senior management that might affect our objectivity and independence and any safeguards put in place;
 - total fees charged to you for audit and non-audit services; and
 - our arrangements to ensure independence and objectivity.

Relationships with the Authority

- 31 We have identified no relationships that might affect objectivity and independence.

Audit fees

- 32 We reported our fee proposals as part of the Audit Plan for 2007/08. The table below reports the outturn fee against that plan.

Table 2 Audit fees

	Plan 2007/08 £	Actual 2007/08 £
Financial statements and Annual Governance Statement	65,050	65,050
Value for Money	25,000	25,000
National Fraud Initiative	350	350
Total Audit Fees	90,400	90,400
Other work - Additional Data Quality Testing	0	5,181

- 33 The analysis above shows that we contained our core audit fee within the totals you have already agreed. The additional data quality testing was undertaken as additional fee work at your request.

Independence

Our arrangements to ensure independence and objectivity

34 We have comprehensive procedures to ensure independence and objectivity. These are outlined in Table 3.

Table 3 Arrangements to ensure independence and objectivity

Area	Arrangements
Independence policies	<p>Our policies and procedures ensure that professional staff or an immediate family member:</p> <ul style="list-style-type: none">• do not hold a financial interest in any of our audit clients;• may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; and• may not enter into business relationships with UK audit clients or their affiliates. <p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none">• the general requirement to carry out work independently and objectively;• safeguarding against potential conflicts of interest;• acceptance of additional (non-audit) work;• rotation of key staff;• other links with audited bodies;• secondments;• membership of audited bodies;• employment by audited bodies;• political activity; and• gifts and hospitality.
Code of Conduct	<p>The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff have to comply with ethical guidance issued by their relevant professional bodies.</p>
Confidentiality	<p>All staff are required to sign an annual undertaking of confidentiality as a condition of employment.</p>

Appendix 1 – Draft letter of representation

To: Steve Nicklin, District Auditor

Northumbria Police Authority - Audit for the year ended 31 March 2008

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Northumbria Police Authority, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2008.

Compliance with statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which present fairly the financial position and financial performance of the police authority and for making accurate representations to you.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the police authority have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all committee meetings, have been made available to you.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

Appendix 1 – Draft letter of representation

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the police authority.

The police authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For each assumption, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require/do not require adjustment to the fair value measurement.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

Contingent liabilities

There are no contingent liabilities. In particular:

- there is no significant pending or threatened litigation;
- there are no material commitments or contractual issues; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

Post balance sheet events

Since the date of approval of the financial statements by the Resource Management Committee, no significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

The police authority has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Signed on behalf of Northumbria Police Authority.

Signed

Name	Derek Coates
Position	Treasurer
Date	17th September 2008

Appendix 2 – Adjustments to the financial statements

Pensions Commutation

- 1 The Home Office issued a circular on 30 May 2008 detailing changes to the method of calculating lump sum commutations for police officers retiring early. An element of these changes was backdated to 1 October 2007, resulting in additional lump sum payments to pensioners of £1.988 million in 2007/08. The statements approved by the Resource Management Committee on 25 June 2008 did not include adjustments relating to this issue, but it was brought to the attention of Members and delegated approval was granted to make further amendments to the statements before 30 June 2008. The amendments were made on 30 June 2008, and we checked the changes as part of the audit and found them to be correct, subject to the comments below.

Accounting for Home Office Pensions Top Up Grant

- 2 Members will recall the difficulties in relation to accounting for Home Office Pensions Top Up Grant in the 2006/07 audit. There has been a lack of guidance in this area. However, during this year's audit the most appropriate accounting treatment has been clarified. This results in some significant amendments to individual lines of the income and expenditure account, although there is no impact on the bottom line of the accounts.
- 3 The changes required are:
 - Changes to the Income and Expenditure Account:
2007/08:
Debit, Non Distributed Costs £15,924k (changes to £3,908k debit)
Credit, Contribution to Police Pension Fund £15,924 (changes to £0)
Leads to changes in additions but no effect on bottom line.
Remove Home Office Pensions Top Up Grant from 'Financed by' section of I&E account and classify as 'Top Up Grant Receivable from the Home Office' within Net Operating Expenditure.
 - Changes to the Income and Expenditure Account:
2006/07 prior year figures:
Debit, Non Distributed Costs £9,718k (changes to £1,213k debit)
Credit, Contribution to Police Pension Fund £9,718k (changes to £0)
Leads to changes in additions but no effect on bottom line.
Remove Home Office Pensions Top Up Grant from 'Financed by' section of I&E account and classify as 'Top Up Grant Receivable from the Home Office' within Net Operating Expenditure.

Appendix 2 – Adjustments to the financial statements

- These changes also need to be reflected in the Subjective Analysis on pages 25-26 of the statements.
- 4 The impact of these changes is to streamline the accounting entries required and remove the impact of Home Office Pensions Top Up Grant from Net Operating Expenditure and the Amount to be Financed from Government Grants and Local Taxes. This also brings the Authority's accounting in line with the SORP.
 - 5 Officers have amended the financial statements.

Trust Funds

- 6 The accounting treatment in relation to charities, Police Property Act 1997 monies and Proceeds of Crime Act 2002 monies required amendment. A note has subsequently been added to the financial statements explaining that these balances, which total £1.674 million, have been excluded from the accounts but are held in trust.

Other issues

- 7 In addition, a small number of amendments have been made elsewhere in the financial statements to correct minor errors or clarify disclosures that are contained in the statements.

Appendix 3 – Draft auditor's report

Independent auditor's report to the Members of Northumbria Police Authority

Opinion on the financial statements

I have audited the accounting statements, the police pension fund accounting statements and related notes of Northumbria Police Authority for the year ended 31 March 2008 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, Statement of the Movement on the General Fund Balance, Balance Sheet, Statement of Total Recognised Gains and Losses, Cash Flow Statement, and the related notes. The police pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial statements and police pension fund accounting statements have been prepared under the accounting policies set out within them.

This report is made solely to the members of Northumbria Police Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Treasurer and auditor

The Treasurer's responsibilities for preparing the financial statements, including the police pension fund accounting statements, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements, the police pension fund accounting statements and related notes present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial transactions of its police pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements, the police pension fund accounting statements and related notes and consider whether it is consistent with the audited accounting statements, the police pension fund accounting statements and related notes. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements, the police pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements, the police pension fund accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements, the police pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements, the police pension fund accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements, the police pension fund accounting statements and related notes.

Opinion

In my opinion:

- The accounting statements and related notes present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended; and
- The police pension fund accounting statements present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial transactions of the police pension fund during the year ended 31 March 2008, and the amount and disposition of the fund's assets and liabilities as at 31 March 2008, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements.

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for police authorities. I report if significant matters have come to my attention which prevent me from concluding that the authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for police authorities specified by the Audit Commission and published in December 2006. I am satisfied that, in all significant respects, Northumbria Police Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Steve Nicklin
District Auditor
Audit Commission
Nickalls House
Metro Centre
Gateshead NE11 9NH

17 September 2008

The Audit Commission

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, covering the £180 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.

Copies of this report

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