

Annual Audit Letter

November 2006



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Cheshire Police Authority

Audit 2005/06

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

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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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

www.audit-commission.gov.uk

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The purpose of this letter

- 1 The purpose of this Annual Audit Letter (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.
- 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.

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 26 September 2006 in advance of the deadline of 30 September.
- 8 The accounts presented for audit were available on time and were supported by good quality working papers. In our Governance report dated 18 September 2006, we reported that there were no significant issues that were necessary to bring to the Authority's attention arising from our work on the financial statements.

Financial position

- 9 The Authority's net expenditure at the end of 2005/06 was some £0.8 million less than projected. The main reasons for this were the lower than expected establishment of police officers, reductions in forensic service activity and non utilisation of a contingency for unforeseen financial pressures. The balance on the General Reserve at 1 April 2005 of £6.2 million was increased during 2005/06 due to the under spend and transfers from other reserves, and stood at £10.1 million at the year-end. Capital expenditure in 2005/06 of £9.6 million was £2.3 million less than anticipated. The delivery of a significant part of the capital programme has slipped into 2006/07 and this will create added pressures in the year which will require effective monitoring.
- 10 The Authority set a net revenue budget of £150 million for 2006/07 utilising reserves of £2.7 million. In setting the budget the Authority also agreed to establish a specific reserve of £2 million to meet the cost of planned developments, for example, recruitment of Community Support Officers in 2007/08.
- 11 The mid year review for the current financial year, reported to the Policy and Finance Panel on 7 November 2006 was forecasting an under spend of £0.8 million. Underlying this overall position, there are projected significant under spends in relation to police pay which are broadly off set by over spends in the Force Operations Directorate and Area Command units. The Treasurer is anticipating that the General Reserve will be in the region of £6.5 million at 31 March 2007 which she believes is adequate for the purposes of the Authority.

Use of Resources

Value for money conclusion

- 12 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 conclusion.
- 13 We assess the Authority's performance against twelve criteria determined by the Audit Commission. These criteria are set out in our audit plan and available on the Audit Commission's website at www.audit-commission.gov.uk.
- 14 We concluded that the Authority has proper arrangements in place against all twelve criteria and we were therefore able to issue an unqualified VFM conclusion on 26 September 2006.

Police Use of Resources Evaluation

- 15 We are required to assess how well the authority manages and uses its financial resources by providing scored judgements in five specific areas. This is known as the Police Use of Resources Evaluation (PURE) and was completed for the first time in 2006.
- 16 We assessed the Authority's arrangements in each of the five areas using a score from 1 to 4 (1 = poor and below minimum standards, 2 = fair, 3 = good and 4 = excellent). An interim report supporting our assessment on four of the themes and highlighting areas for improvement was issued to the Authority in July 2006. The assessment for financial reporting was necessarily made following the audit of the 2005/06 accounts and a final report including this assessment was issued in early November 2006. Our findings have been made available to HMIC to inform its baseline assessment and are summarised in Table 1.

Table 1 PURE scores

Area	Score	Summary findings
Financial reporting	3	The Authority performs well in this area. The accounts production process and the quality of the financial statements and supporting working papers are good. However, the arrangements for enabling members to interpret and challenge the accounts need further development.
Financial management	2	The arrangements are adequate. Financial planning is not effectively integrated with other business plans. Budget monitoring is robust. Management of key resources like buildings and vehicles is generally effective and there are good strategies now in place to achieve improvements.
Financial standing	3	The Authority performs well in this area. It has a track record of managing its spending within available resources despite ongoing financial pressures and the delivery of major developments like the Taking Control Project.
Internal Control	2	Corporate governance arrangements are adequate. Systems for reviewing internal controls are sound and the Code of Conduct for members is implemented well. However, risk management arrangements are underdeveloped, business continuity plans are incomplete and the role of the Standards Committee needs to be reviewed.
Value for money	2	The arrangements for securing value for money are generally effective. Costs are generally low but performance is mixed. Some key improvement targets have not been achieved and there continues to be below average levels of public confidence in local policing. The Force has a good record in delivering efficiency gains. There is a lack of VFM targets to enable the Authority to measure, monitor and report on VFM delivery.
Overall	2	

- 17 The scored judgements are linked to our responsibilities under the Code and whilst no issues were identified that had an adverse impact on the VFM conclusion, we identified areas for improvement and these have been included in an action plan which was attached to our final report. The more significant actions which are required are as follows.
- Identify and meet the financial information needs of stakeholders.
 - Strengthen the connection between the strategic plan priorities and the medium-term financial strategy (MTFS) to demonstrate how priorities are to be financed. Links between the MTFS and other resource strategies, for example, Estates and Information Technology also need to be made clearer.
 - Develop a set of financial health targets to enable effective monitoring by members.
 - Integrate the new approach to risk management with the business planning, performance management and benefits realisation processes to ensure that risk knowledge is more systematically contributing to the decision-making processes.
 - Complete the preparatory work on business continuity planning to ensure that the Authority has overall arrangements which are coherent, robust and tested.
 - Review the role of the Standards Committee.

Activity Based Costing

- 18 We assessed the implementation of Activity Based Costing (ABC) by considering whether the Authority has systems in place to produce an accurate submission of costing data to the Home Office.
- 19 Overall we assessed the arrangements at the Authority as 'good' and the quality of the data submission as 'Fair'. This represents an improvement compared with the 2005 assessment and reflects the effective work which has been carried out to improve analysis and validation processes and to make better use of the outputs from the ABC model. There is now a clearer and more consistent commitment within the Force for 'getting it right first time'.
- 20 In our report issued in June 2006 we have included recommendations to help enable the Authority to maintain continuous improvement. The more significant of these involve the need to:
- help ABC practitioners in the Force to achieve a better understanding of the workings of the ABC model;
 - implement more effective processes for the high level assessment of the reasonableness of ABC outputs; and
 - routinely report to members on ABC issues and outcomes.

Review of Crime Data Quality

- 21** During the year we reviewed the arrangements in place for recording and reporting crime data focusing on elements of data reported in the Police Performance Assessment Framework (PPAF).
- 22** We made assessments of the arrangements for recording and reporting of data and of the accuracy of the data. We concluded that both the overall arrangements and the accuracy of the data had improved compared with the position in the previous year. Our assessment is that the arrangements are now 'good' and the data quality is 'excellent'. In our report issued in May 2006 we concluded that:
- significant progress had been made in implementing the 2004/05 Data Quality Action Plan which had been supported by the establishment of a centralised crime management bureau;
 - there is a strong framework of accountability for crime recording;
 - significant progress had been made in establishing effective incident and crime recording systems and processes; and
 - the officer training programme introduced by the Force Crime Registrar has had a very positive affect on crime recording performance.
- 23** We made a limited number of recommendations mainly around enhancing existing arrangements for quality assurance and audit, training, monitoring service user satisfaction and raising the profile of crime recording via the staff appraisal process. The Authority has responded positively to our findings.

Closing remarks

- 24 This letter has been discussed and agreed with the Chief Executive and the Treasurer to the Authority and the Assistant Chief Officer at the Force. A copy of the letter will be presented at the Audit Committee on 16 January 2007 and copies will be provided to all Authority members.
- 25 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 are listed in the following table.

Table 2

Report	Actual date of issue
Audit Plan	20 April 2005
Review of crime recording	20 May 2006
Activity Based Costing	10 June 2006
PURE Interim Report	21 July 2006
PURE Final Report	3 November 2006
Opinion Audit Issues	30 October 2006
Annual Governance Report	18 September 2006
Annual Audit Letter	20 November 2006

I would like to take this opportunity to thank the Authority for its assistance and co-operation during the course of the audit.

Julian Farmer
District Auditor
November 2006