audit commission

Annual Audit Letter

Cheshire 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; and
- 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 and 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. Appointed auditors address their reports to non-executive directors or officers and for the sole use of the audited body. Auditors accept no responsibility to:

- any directors in their individual capacity; or
- any third party.

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Summary

Key messages

1 We have completed our audit for 2006/07 and I have issued an unqualified opinion on your statement of accounts. No significant issues were identified during the audit. I have also issued an unqualified conclusion on your arrangements to achieve value for money. This confirms that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Improvements have been made in a number of areas covered by our use of resources assessment (PURE) and specifically in relation to the value for money arrangements. This is reflected in the Authority improving its overall use of resources score from a 2 (adequate performance) in 2006 to a 3 (performing well) in 2007.

2 An action plan to secure improvements has been agreed with Authority and Force officers. The key areas in which members need to monitor progress relate to how resources are effectively targeted at delivery of the new ambition for policing over the next three years and the effective implementation of the VFM strategy.

3 The Authority and Force aspire to high standards of data quality and these standards are achieved. We have assessed the overall arrangements for securing data quality as being good and the reliability of data systems for investigating crime and assessing user satisfaction as being excellent.

Recommendations

4 The key recommendations that members need to focus on to secure improvements are set out below. Detailed recommendations in respect of the audit work undertaken are included in the various reports issued during the year.

Recommendations	
R1	*Monitor the impact of the work being undertaken by the Treasurer and Business Services Department staff to ensure that business planning clearly links with medium term financial planning and that this enables effective allocation of resources.*
R2	*Monitor the implementation of the draft VFM Strategy and its communication across the Authority and Force.*
R3	*Monitor progress against the action plan which is included in the 2007 PURE report.*

Purpose, responsibilities and scope

5 This letter provides an overall summary of the Audit Commission's assessment of the 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 force, as well as the Authority.

6 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. I have made recommendations to assist the Authority in meeting its responsibilities.

7 This letter also communicates the significant issues to key external stakeholders, including members of the public. I will publish this letter on the Audit Commission website at www.audit-commission.gov.uk. In addition the Authority is planning to publish it on its website.

8 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 Evaluation).

9 I have listed the reports issued to the Authority relating to the 2006/07 audit at Table 2 towards the end of this letter.

Audit of the accounts

10 I issued an unqualified opinion on the Authority's accounts on 13 September 2007.

11 Before giving my opinion, I reported to the Audit Committee acting as 'those charged with governance' on the issues arising from the 2006/07 audit. The key issues in the report to Committee were:

- the Authority's processes for preparing the financial statements and supporting working papers are good;
- the accounts did not contain any material errors; and
- the Statement on Internal Control was prepared in accordance with proper practices and is consistent with the findings from our audit.

Whole of government accounts

12 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 of Communities and Local Government (DCLG) and the auditor is required to undertake a range of procedures and report on the pack.

13 We have completed the procedures specified and we submitted the audited version of the consolidation pack to the DCLG on 27 September 2007, together with our audit opinion. There are no issues to bring to the attention of the Authority.

Use of resources

14 I am required to conclude whether 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. I am also required to assess 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).

Value for money conclusion

15 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.

16 I have concluded that the Authority has proper arrangements in place in relation to all twelve criteria and this enabled me to give an unqualified VFM conclusion on 13 September 2007.

Review of police data quality

17 As part of our work on the value for money conclusion, we carried out a review of police data quality. We considered whether the Authority has proper arrangements in place to secure 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.

18 The Authority and Force have good corporate arrangements for securing data quality. There is a strong commitment to securing data quality which is communicated in the Annual Policing Plan. Members are focussed on improving data quality and have clearly responded to audit recommendations made in previous years.

19 The Force is making good progress in strengthening its systems and changing working practices to support further improvement in data quality. We assessed the processes for recording and investigating crime and for determining user satisfaction as being excellent. All of the published statutory performance indicators tested were complete, accurate and fairly stated. The Force has made good progress in implementing the National Standard for Incident Recording (NSIR).

Police use of resources scores

20 We assessed the Authority's arrangements in five areas and scored each area 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 November 2007. The report will be presented alongside this letter at the Authority's Audit Committee meeting on 18 December 2007. A summary of the scores is provided at Table 1.

Table 1 Police use of resources scores

Element	Assessment
Financial reporting	3 out of 4
Financial management	2 out of 4
Financial standing	3 out of 4
Internal control	2 out of 4
Value for money	3 out of 4
Overall Audit Commission assessment	**3 out of 4**

21 The key issues arising from the audit, as reflected in the above judgements where appropriate, are as follows.

Overall messages

22 The overall messages from our work are as follows.

- The Authority and Force established a Use of Resources improvement group to facilitate implementation of improvement opportunities arising from the assessment in 2006. The group has produced a PURE implementation action plan, progress against which is regularly reported to the Audit Committee. Progress reporting to committee has been helpful in raising the profile of resource issues.
- Financial reporting arrangements remain good overall. The financial statements are well prepared and are supported by good working papers. Priority needs to be given to producing a set of accounts for 2007/08 which fully comply with all recommended accounting practices. The financial information needs of stakeholders have been considered and this helped determine the format of the summary financial information which is soon to be published on the Authority's website. Further work is needed to make other information relating to the Authority, for example HMIC reports, more accessible to potential users.

- The Authority and Force recognise that financial management arrangements need developing and better integrating with business planning processes. Improvement actions have been agreed across the Authority and Force and a momentum has been established to secure these. The Force's Business Service Directorate (BSD) is driving the improvements through initiatives such as the 'managing for excellence' and the 'value added' work.
- The Authority and Force arrangements for internal control are adequate and improving in most areas. A measured and effective approach is being taken to strengthening the risk management arrangements and there is evidence that the developments are impacting on the decision making process. Business continuity plans are in place for most areas but there is still a need to produce an overarching plan for the Authority and Force. The review of Financial Regulations has been protracted and needs to be completed as a matter of priority. The approach to ethical governance issues is not sufficiently proactive, for example, in responding to the requirements of the Commission's National Fraud Initiative (NFI).
- The Authority's cost of service is below the average for other similar forces and council tax levels are the lowest of all shire police authorities. Whilst levels of crime are above average there was an overall 6.6 per cent decrease in recorded crime in 2006/07. The level of sanction detections is better than the average for other similar forces and is improving. Although the public fear of crime is reducing customer satisfaction with the Force is poor and is a priority for action. The Authority is focused on managing and improving its performance and now needs to implement its value for money strategy. The Authority has outlined a challenging approach to improve value for money in light of resourcing pressures and delivery of the approach is a significant priority. The Authority has performed well in achieving its planned efficiency savings.

Role of the police authority

23 The role of members in relation to approving the financial statements has improved, but there is scope to enhance the effectiveness of the challenge process. The Authority has robust arrangements in place for setting and approving the annual revenue budget whilst keeping council tax increases to a minimum and enabling delivery of corporate objectives. However, members have traditionally been less involved in the development of the capital strategy and monitoring of the capital programme, but this is changing.

24 The Medium Term Financial Strategy (MTFS) is adequate but there are opportunities for the full time Treasurer to work with the Force's BSD to enhance its value and achieve further integration of it with other corporate and operational planning processes. Budget monitoring by the Finance Panel is being strengthened but needs to be enhanced to more clearly focus on at risk budgets and to link budgetary information to activity and performance outcomes.

25 In recent months the Chief Executive has been working with members to review governance structures and identify areas for improvement. The focus of the review was on how the Authority can be proactive and use scrutiny more effectively to deliver its strategic vision. There have been some immediate improvements, for example:

- the Audit Committee has a forward looking work programme, revised terms of reference including a new responsibility for considering and approving the financial statements;
- the role of the Standards Committee has been reviewed;
- an Engagement Committee has been established to develop internal and external consultation and communications;
- scrutiny groups have been established to hold the Force to account in relation to its performance and its policies;
- member training is being delivered on a range of subjects; and
- members are becoming more involved in the risk management processes through briefings and challenge at the Audit Committee and membership of the Risk Management Group, but more priority needs to be given to monitoring the effectiveness of business continuity plans and responding to the requirements of the NFI.

National Fraud Initiative

26 The National Fraud Initiative (NFI) 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 in January 2007.

27 The Force did not submit all the required data for the NFI exercise by the required deadline and consequently did not receive the full suite of data matching reports. The Authority and force need to give more priority to ensuring that there is effective participation in the exercise.

28 We monitor the activity of the Authority and force in following up the potential fraud matches by reviewing progress throughout the year. The key elements of the process are to ensure data protection requirements are in place, that key contacts are nominated and the quality of the data is checked.

Closing remarks

29 We have discussed and agreed this letter with the Chief Executive, Treasurer to the Authority and the Force's Assistant Chief Officer. We will present the letter at the Audit Committee on 18 December 2007.

30 Further detailed findings, conclusions and recommendations on the areas covered by the audit are included in the reports issued to the Authority during the year. These are listed in Table 2 below.

Table 2 Reports issued

Report	Date of issue
Audit plan	March 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
Use of resources - Interim Report	September 2007
Use of resources - Final Report	November 2007
Matters arising from financial statements audit	November 2007
Annual audit letter	December 2007

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

Julian Farmer
District Auditor

November 2007