

Annual Audit Letter

Bedfordshire Police Authority

Audit 2010/11



Contents

- Key messages.....3**
 - Audit opinion and financial statements.....3
 - Value for money3
- Current and future challenges4**
- Financial statements and annual governance statement.....8**
 - Overall conclusion from the audit.....8
 - Whole of Government Accounts.....9
 - Significant weaknesses in internal control.....9
- Value for money.....10**
- Closing remarks13**
- Appendix 1 – Fees14**
- Appendix 2 – Glossary.....15**

Traffic light explanation

Red  Amber  Green 

Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- the audit of your financial statements; and
- my assessment of your arrangements to achieve value for money in your use of resources.

I have no recommendations to make in this report.

Key audit risk	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

Audit opinion and financial statements

- The changes arising from the introduction of International Financial Reporting Standards (IFRS) impacted upon both the Authority's preparation and my audit of the accounts. The Authority adopted a proactive approach to this challenge and engaged at an early and ongoing basis with my staff. This was a significant task and although the audit has identified more issues than in previous years; this is consistent with the performance of local government bodies nationally. The financial statements presented for audit contained three material and ten non-trivial errors. These errors were mainly disclosure and presentational issues and did not impact on the usable reserves of the Authority.
- I was therefore able to issue an unqualified opinion and certificate on 21 September 2011. This compares well with the 38 bodies nationally that did not receive an opinion and certificate by the due date.

- I was also able to certify the Whole of Government Accounts (WGA) return by 30 September as required by the Code of Practice.
- The documentation and working papers supporting the accounts were of a good standard, as they have consistently been in previous years.
- I did not identify any significant weaknesses in your internal control arrangements.

Value for money

The Authority's arrangements in both of the criteria are such that I issued an unqualified value for money conclusion stating that the Authority had proper arrangements to secure economy, efficiency and effectiveness in your use of resources on 21 September 2011.

The existing arrangements provide a strong foundation against which the Authority and Force can face the significant and varied challenges regarding the structure and financing of the service over the medium term.

Current and future challenges

This is a period of challenge for the public sector and the police sector in particular. The following outline some of the key challenges that will be faced over the next few years.

Police Reform and Social Responsibility Act 2011

The Act received Royal Assent on 15 September 2011. The Act covers five distinct policy areas:

- police accountability and governance;
- alcohol licensing;
- the regulation of protests around Parliament Square;
- misuse of drugs; and
- the issue of arrest warrants in respect of private prosecutions for universal jurisdiction offences.

The latter four areas deal with specific operational policing issues, whereas the first will lead to the replacement of the existing tripartite relationship between the Home Office, Police Authority and the Force. The new arrangement will fundamentally change the relationship, with the Police Authority ceasing to exist and the introduction of directly elected Police and Crime Commissioners (PCCs). At the same time there are significant changes in the roles and responsibilities of the PCC and the Chief Constable (CC).

The first election of a PCC will take place on 15 November 2012, with the successful candidate taking up office for a four year period on 22 November 2012. This is some six months later than originally planned. Although the Act covers some of the detail of the arrangements, the majority of the detailed requirements will be covered in secondary legislation and guidance issued over the next few months. These will include:

- the content of the police and crime plan;
- the interrelationship of the PCC the CC and the Police and Crime Panel;
- dispute resolution protocols;
- public information; and
- transfer of assets, liabilities and contracts.

The absence of secondary legislation and guidance should not prevent the Authority and Force planning for the new arrangements. The PCC and CC will need effective governance arrangements, and the systems, processes and resources to support those arrangements.

Both of the corporations sole will need to prepare annual financial statements following relevant guidance. My understanding is both organisations will need to:

- prepare financial statements for the year ending 31 March 2013 using merger accounting – presenting their financial performance as if both soles had existed from the start of the financial year;
- prepare both ‘single entity’ accounts (reflecting own activities) and group accounts (reflecting the activities of both soles); and
- exercise judgements over assigning income, expenditure, assets and liabilities between themselves, potentially before final determination of assigning responsibilities.

It is a significant task for Authority and Force to prepare for the transition to the new arrangements against a tight timescale. The Authority has kept Members aware of the changes and both the Authority and Force can draw on a track record of successful innovation, sound governance and Value for Money achievements to meet this challenge.

Functional policing model

On 3 October 2011, the Force completed the move to a revised functional policing model. This followed an interim period from 1 April 2011 where the Force integrated aspects of the new model. The changes are to deliver the Strategic Intent to ‘Fight Crime and Protect the Public’ as set out in the Strategic Plan. The Strategic Plan is based on assessments of threat, harm and risk and was informed by public consultation. The new model aims to improve performance against the current backdrop of significant budget cuts. The four resource model areas are:

- local policing;
- crime
- protective collaborative services; and
- corporate services.

The Corporate Performance Framework has included a revised set of measures to highlight delivery of the expected performance (crime and productivity) improvements that the new model has been designed to achieve. The well established change management systems in place have supported the speedy move to the new model. The success of the new model is a key part of the integrated operational, communication and financial strategy of the Authority and Force.

The Winsor Review

This review is in two stages, considering police conditions and pay. The first stage, which reported in March 2011 covered:

- the deployment of officers and staff (including shift allowances, overtime and assisting other police forces);
- post and performance related pay (including special priority payments, competence related threshold payments for constables and bonuses at all ranks); and
- how officers leave the police service.

It stated that implementation of its recommendations could result in some £217 million being saved/reinvested in front line services by April 2014.

The second stage, which is due to report in January 2012, is looking at:

- entry routes into the police service;
- the career of officers and police staff – including the future of pay scales, progression increments and performance appraisal; and
- the pay negotiating mechanisms themselves.

If fully implemented, the stage 1 recommendations would make a significant difference to both the operational policing and the financial cost of that policing. Potentially the areas being covered in stage 2 of the review could be even more significant. The results of the review are therefore a key element within the risk management of the Authority and the Force.

Collaboration

Previously, and elsewhere in this letter, I have commented upon the Authority being held up as a beacon to other Forces with regard to its collaboration work with Hertfordshire Police Authority. This work continues to develop and now includes Cambridgeshire Police Authority as a third partner in the Three Force Strategic Alliance. The continued success of the existing collaboration units and a phased increase in the number of areas to be covered are seen as key elements to the delivery of operational services and balanced budgets over the next few years. The strong governance arrangements and detailed option appraisal approach currently in place provide a solid platform on which to continue the expansion of collaborative working.

Economic downturn and pressure on the public sector

The economic downturn is placing increasing pressure on the public sector as a whole. Following the challenging Comprehensive Spending Review settlement and subsequent Police Grant allocation the Authority faced a potential budget gap of £19.2 million over the four year period 2011/12 to 2014/15.

The Authority's 2011/12 budget included some £6.2 million of savings as a means of closing that potential budget gap. The Resources Scrutiny Committee meeting in October 2011 set out an estimated overspend for 2011/12 of £32,000. The Authority has not applied virement of underspends to areas of overspend so as to ensure that overspend areas are transparent and continue to receive detailed scrutiny and monitoring.

Detailed budget reductions to meet the minimum budget gap for 2012/13 of £5.6 million are in place, together with a risk analysis of the probable achievability of the proposals. Current proposals to address the indicative budget gaps in 2013/14 and 2014/15 draw upon the benefits expected to accrue from the work on collaboration of the Three Force Strategic Alliance.

The Authority continues to show strong budgetary and financial management. Ultimately, success will be recognised if the substantial performance improvements can be sustained whilst continuing to deliver significant financial savings.

The Neyroud Review

This review, into Police leadership and training, was published in April 2011 and immediately put out to consultation by the Home Office before any decision on implementation was taken. The consultation period ended on 28 June 2011.

The report grouped recommendations under four main headings, with the key items for each set out below.

- Professionalising the Police Service - creating a professional body:
 - setting up of a Police Professional Body, supported by a Charter, which would be responsible for the key national standards, both individual and organisational, qualification frameworks, leadership and training approaches for the service;
 - merging the functions of the Association of Chief Police Officers (ACPO) into the new Professional Body, whilst involving police officers and police staff; and
 - new Council of Chief Constables that will provide support and advice on key standards and collective advice to Ministers.
- Building professional development:
 - new 'Police Initial Qualification' for all police constables before they can become members of the Professional Body obtainable via both academic and career experience routes; and
 - shift in police training from a classroom based approach to greater responsibility being placed on individual officers and a new partnership with further and higher education.
- Developing senior and strategic leadership:
 - revised manager qualification framework;
 - four step approach to strategic to the qualification, assessment and development of the strategic leaders of the service; and
 - national talent management approach in policing to rest with Professional Body.
- Delivery of leadership and training:
 - leadership training to be commissioned from higher education and other providers accredited by the Professional Body; and
 - establishment of a national delivery body for specialist police training as a subsidiary of the Professional Body.

Full implementation of the review findings would have significant impact on the recruitment and professional development of officers. It will lead to a culture change in the way training needs are identified and delivered. The review sets out some high level costing of the proposals, however, the impact at an individual Force will be heavily dependent upon the current approach to and delivery of training. The implementation of the review is noted as a future budget risk; however this is not currently expected to occur before the move to PCCs.

Financial statements and annual governance statement

The Authority's financial statements and annual governance statement are an important means by which it accounts for its stewardship of public funds.

Overall conclusion from the audit

I issued an unqualified opinion and certificate on 21 September 2011.

The move to IFRS set all local government bodies the difficult task of reviewing their past accounting policies and accounts and restating them in the format required by IFRS, as well as preparing the current year accounts in that format. The Authority adopted a proactive approach to this challenge and engaged at an early and ongoing basis with my staff. This was a significant task and although the audit has identified more issues than in previous years; this is consistent with the performance of local government bodies nationally. As a result some 38 bodies did not receive an opinion and certificate by the due date.

The accounts submitted for audit contained three material errors, with 10 non-trivial errors. However, the majority of these errors related to disclosure and reporting and have not reduced the usable reserves of the Authority.

The three material errors, which I set out in detail in my Annual Governance Report covered the:

- accounting for short term accumulated absences as a provision rather than a creditor;
- omission of an explanation of the impact of:
 - the move from Retail Price Index to Consumer Price Index in the calculation of future pension increases impairment losses; and
 - the change in accounting for the cost of injury awards in respect of active officers;
- Note 38 overstating the precept value by £5 million.

In assessing the quality of your financial statements I considered aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. The documentation and working papers supporting the accounts were of a good standard. In common with other local government bodies the change to IFRS meant that work on the accounts was progressing throughout June and the normal quality review procedures were not carried out. This is a contributory factor to the number of typographical, casting and consistency errors increasing.

My Annual Governance Report made a number of recommendations to further improve the closedown procedures. These have been accepted by the Authority.

Whole of Government Accounts

I am also required to certify the council's WGA return by 30 September. This work was completed with certification and submission taking place on 30 September.

Significant weaknesses in internal control

I did not identify any significant weaknesses in your internal control arrangements.

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.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Authority has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

Value for money criteria and key messages

Criterion	Key messages
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The leadership team understands the significant and rapidly changing financial management challenges and risks facing the Authority and is taking appropriate action to secure a stable financial position in the run up to the proposed changes to the structure and organisation of policing nationally. Key to this assessment are the:</p> <ul style="list-style-type: none">■ regular financial briefings by the Treasurer who is a member of the leadership team;■ longer term strategy and Medium Term Financial Strategy (MTFS), which was updated prior to the full settlement announcement, and includes detailed analysis of the recession impact;■ delivery of savings plans through four key work streams, budget challenge, support services review, restructuring programme and new/existing collaboration projects;■ record of delivering on previous savings plans continued in 2010/11, for example, overtime spending reduced from £4.079 million in 2009/10 to £2.818 million in 2010/11;

Criterion	Key messages
	<ul style="list-style-type: none"> ■ expansion of collaborative working with Hertfordshire Police Authority to also now include Cambridgeshire Police Authority; ■ clear linkages in the MTFs and budget to the Authority's strategic objectives; and ■ detailed scrutiny of financial proposals, budget and accounts in 2010/11 through the Audit and Business Assurance Committee, the Finance/Resources Scrutiny Committee and the full Authority meetings. <p>To support effective financial management the Authority has a:</p> <ul style="list-style-type: none"> ■ proportionate financial training programme in place for both members and staff; ■ audit committee function, which in 2010/11 was carried out by the Audit and Business Assurance Committee, which continues to be adequately discharged; ■ Treasury Management Strategy which sets out a balance between security, liquidity and yield. This is regularly monitored against pre set benchmarks; and ■ established system of financial benchmarking in operation. <p>The Authority has a strong track record of delivering within budget despite the changing financial pressures of recent years.</p>
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>The Authority has a robust budget setting and review process that identifies the needs and priority areas linked to their strategic objectives. These are subject to regular review and the approach ensures that resources are applied to priority areas.</p> <p>The work in areas such as collaboration is deemed a beacon for other police authorities nationally. The extension of the areas of collaboration exemplifies the sound approach to value for money with full option appraisals of proposals and a requirement that both financial and operational benefits accrue to all parties. There is a clear recognition that to achieve their strategic objectives and deliver the necessary services within the existing cost restraints that collaborative working is essential.</p> <p>Collaboration units in respect of Pensions, Information Communication Technology, Roads Policing, Firearms Licensing and Counter Terrorism and Domestic Extremism were agreed and established late 2010/11 becoming fully operational in 2011/12.</p> <p>The Authority has a good record of consultation/information provision with the public both on policing priorities and financial aspects of the organisation.</p>

Criterion**Key messages**

The Authority considers financial information alongside related performance information linked to strategic objectives to monitor performance.

The HMIC inspection in 2010 rated the Authority at level 3 in respect of VFM.

Closing remarks

I have discussed and agreed this letter with the Chief Executive/Treasurer. Copies of the letter will be made available to Members by the 30 November deadline. I will present this letter at the Compliance and Risk Management Committee meeting on 24 January 2012.

Further detailed findings, conclusions and recommendations in the areas covered by my audit are included in the Annual Governance Report issued to the Authority in September 2011.

The Authority and Force have taken a positive and constructive approach to all aspects of my audit. I wish to thank the members, officers and staff for their support and co-operation during the audit.

Paul King
District Auditor

November 2011

Appendix 1 – Fees

	Actual (£)	Proposed (£)	Variance (£)
Audit fee	78,500	78,500	nil
Total	78,500	78,500	nil

NB In addition, the Audit Commission as regulator, made two rebates during the year totalling £6,452 (8.2 per cent of audit fee).

Appendix 2 – Glossary

Annual governance statement

Governance is about how an Authority ensures that it is 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 the Authority is directed and controlled and through which it accounts to, engages with and where appropriate, leads its community.

The annual governance statement is a public report by the Authority on the extent to which it complies with its own 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 closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my 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; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

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 resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;

- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified opinion.

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