

Annual Audit Letter

Derbyshire Police Authority

Audit 2009/10

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, auditing the £200 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.

Contents

Key messages	2
Audit opinion and financial statements	2
Value for money.....	2
Audit fees.....	2
Current and future challenges	2
Financial statements and annual governance statement	4
Overall conclusion from the audit	4
Significant weaknesses in internal control	4
Other issues.....	4
Value for money	6
2009/10 use of resources assessments	6
VFM conclusion	6
Approach to local value for money work from 2010/11.....	7
Current and future challenges	8
Challenges 2010/11	8
Closing remarks	10
Appendix 1 Audit fees	11
Appendix 2 Glossary	12
Appendix 3 Action plan	13

Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements (pages 4 to 5); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 7).**

Audit opinion and financial statements

1 I issued an unqualified audit opinion on the 2009/10 financial statements of Derbyshire Police Authority on 30 September 2010.

Value for money

2 I concluded that you have put in place adequate arrangements for securing economy, efficiency and effectiveness in your use of resources and I issued an unqualified value for money conclusion on 30 September 2010.

Audit fees

3 I delivered my audit within the agreed fee as set out in my 2009/10 fee letter. Please see Appendix 1 for details.

Current and future challenges

4 The economic downturn and increased financial pressure on the public sector continues to represent a significant risk to Derbyshire Police Authority. Based on announcements in the Comprehensive Spending Review. It is likely that you could lose up to £14 million of your government funding over the next four years. In addition further cost efficiencies of £10 million will be required to close the budget gap of £24 million in 2014/15.

5 All public sector organisations face similar pressures over the same period. The scale of savings required cannot be achieved in isolation and it is essential that you continue to work jointly with your partners to address the issues that this challenge presents. At the same time you will need to minimise corporate and operational risks that may present themselves as a result of the decisions that you or your partners may take.

6 Historically you have demonstrated strong financial standing and a robust level of reserves. Your Officers recognise the need to maximise both the stability and flexibility offered by this position as financial pressures become more challenging. Efficiencies have already been delivered through the structural re-organisation and the reduction in the number of Basic Command Units. The reviews resulting from your current cost improvement programme should allow you to demonstrate a stronger link between the patterns of crime, service demand and the allocation of financial and other resources.

7 Going forward you need to ensure that your arrangements for financial and performance management are strong enough to address the new delivery challenges faced by the police force. You will need to be assured that there is resilience in your financial plans, including the medium term financial strategy and that the current governance arrangements are sufficiently robust to deliver the degree of scrutiny, challenge and engagement required in the current financial climate. Arrangements will need to focus on the delivery of measurable outcomes and financial savings.

8 You may have to take difficult and challenging decisions as you take forward this agenda over the next four years. Additionally, the Government has consulted on proposals contained in 'Policing in the 21st Century'; the key structural change that is contained in the document is the proposal to replace police authorities with directly elected Police and Crime Commissioners. As this, and other proposals, develop and take shape you will need to assess both the strategic and operational impact on the police force in Derbyshire.

9 It is against this background that I make the following recommendations to you as Members of Derbyshire Police Authority.

Recommendations to Members

- R1** Continue to collaborate with partners to address financial and performance management challenges and to explore new and innovative ways of working.
 - R2** Assure yourselves that your current financial and performance management arrangements are strong enough to respond to the significant financial and delivery challenges faced by the police force and the wider public sector.
 - R3** Assess the strategic and operational impact of the proposals contained within 'Policing in the 21st Century' as they take on greater shape and clarity.
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Financial statements and annual governance statement

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

I gave an unqualified opinion on the Authority's 2009/10 financial statements on 30 September 2010.

Overall conclusion from the audit

10 I issued an unqualified audit opinion on the 2009/10 financial statements of Derbyshire Police Authority on 30 September 2010. This was within the statutory deadline for the publication of accounts.

11 The arrangements for production of your financial statements are good. The draft financial statements were produced to a high standard by the target date and the supporting working papers were of a good standard.

12 My audit did not identify any material errors that affected the outturn. Nevertheless, I questioned the absence of a Time Off In Lieu (TOIL) accrual within the Balance Sheet. This had been accounted for in previous years. The sum involved is approximately £325,000 and is not material. I received a response from your Resources Committee explaining the reasons for not including this item. I propose no further action in relation to the 2009/10 accounts.

Significant weaknesses in internal control

13 My review found no material weaknesses in internal control.

Other issues

International Financial Reporting Standards

14 As part of the 2009/10 financial statements the Authority correctly adopted the first stage in the transition to International Financial Reporting Standards (IFRS). This required the recognition of two buildings, provided under Private Financial Initiatives, to be disclosed within the Authority's Balance Sheet.

15 The second and final stage towards IFRS is within 2010/11 and this is the restatement of the remaining elements of the Balance Sheet and financial statements to comply with the new definitions and terminology. My review of the progress by the Authority, which I undertook in July 2010, suggests that the initial work to assess the impact of IFRS has been completed but progress to restate the Balance Sheet has been delayed. Your finance team aim to complete the restatement of the 2008/09 and 2009/10 accounts in line with IFRS requirements by the end of December 2010. I will continue to monitor progress against this timetable and I plan to review the restated accounts in early 2011.

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.

2009/10 use of resources assessments

16 At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

17 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May 2010 to inform my 2009/10 conclusion.

18 I report the significant findings from the work I have carried out to support the VFM conclusion.

VFM conclusion

19 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLoE) are the relevant criteria for the VFM conclusion at each type of audited body.

20 There is a summary of my findings overleaf.

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural resources	Yes

21 Based on the above I provided an unqualified VFM conclusion for 2009/10 stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Approach to local value for money work from 2010/11

22 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

23 My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

24 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Authority in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

Challenges 2010/11

Financial planning

25 The economic downturn, together with the financial pressures faced by the public sector, continues to represent a significant challenge to the Authority.

26 Central Government funding to police authorities is set to reduce by 20 per cent over the coming four year period. For Derbyshire Police Authority this is likely to equate to a total reduction in funding of £14 million. Further cost efficiencies of some £10 million will be required in order for you to bridge the anticipated budget gap of £24 million in 2014/15.

27 So far during 2009/10 you have successfully delivered £4.6 million of savings which equates to a full year effect of savings in the order £6.5 million. Without the savings already delivered you would have been facing a budget gap of £30 million in 2014/15. Steps that you have already taken to address financial challenges include:

- operational restructure from four Basic Command Units (BCUs) down to three BCUs;
- introduction of professional judgement to policing;
- improvements to the custody process and staffing;
- reductions in sickness absence;
- further collaboration arrangements with other local forces; and
- changes to mobile data.

28 Additional financial pressures may arise through other areas such as pension contributions, capital charges, an ongoing lower level of interest received on investments and any potential asset impairments as a result of suppressed property and land values.

29 In common with all public sector bodies you need to review your arrangements for financial and performance management to ensure they are suitably robust to address forthcoming challenges. For example ensuring that:

- there is resilience in medium term financial planning; and
- arrangements provide assurance that resources are targeted at areas of greatest priority and that scope for financial savings or reinvestment can be identified and actioned.

Police reform

30 In the longer term the results of the 'Policing in the 21st Century' proposals may have a significant impact on the way police services are provided across Derbyshire. The proposals seek to determine the future role and shape of policing and have four key themes:

- public empowerment;
- police empowerment;
- shift in the focus of national government; and
- Big Society empowerment.

31 Each of these areas individually will have a significant impact on the way the police force is managed, governed and challenged. Taken together these four themes represent a whole new strategic approach. As the future developments clarify the shape of the Policing in the 21st Century Project the Authority and the Force will need to continue to work together to assess the impact and changes that will result in Derbyshire and to successfully manage and deliver the transition to any new structures and arrangements.

Closing remarks

32 I have discussed and agreed this letter with the Treasurer and the Director of Finance. I will present this letter at the Corporate Governance Committee on 30 November 2010 and I will provide copies to all members.

33 Further details of my 2009/10 audit are provided in the following documents which I presented to the Corporate Governance Committee during the year.

Report	Date issued
Annual Fee Letter 2009/10	April 2009
Audit Opinion Plan 2009/10	March 2010
Annual Governance Report 2009/10	September 2010
Auditors report on the financial statements	September 2010
Value for money conclusion	September 2010

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

John Cornett
District Auditor
November 2010

Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	46,168	46,168	0
Value for money	31,832	31,832	0
Total audit fees	78,000	78,000	0
Non-audit work	0	0	0
Total	78,000	78,000	0

Appendix 2 Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are 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 local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

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

On completion of the audit of the accounts, auditors must give their 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;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

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 money, people and time.

Appendix 3 Action plan

Recommendations

Recommendation 1

Continue to collaborate with partners to address financial and performance management challenges and to explore new and innovative ways of working.

Responsibility	Strategic Policing Committee
Priority	High
Date	Ongoing
Comments	Derbyshire Police Authority delivers its core collaboration agenda through the East Midlands Joint Policing Committee (EMPAJC) and the Collaboration Board (CB) of the five East Midlands Forces and Police Authorities. There is a Collaboration Business Plan which identifies 15 work streams in two tranches, and progress in each work stream is reported to every Strategic Policing Committee and to the full Police Authority by the Regional DCC.

Recommendation 2

Assure yourselves that your current financial and performance management arrangements are strong enough to respond to the significant financial and delivery challenges faced by the police force and the wider public sector.

Responsibility	Resources Committee (RC) for financial management & Performance Management & Targeting Panel (PMTP) for performance management.
Priority	High
Date	Ongoing
Comments	<p>Each committee has an action and delivery plan, reviewed at every meeting. The plans align to the overall Police Authority Business Plan. The Resources Committee is responsible for approving the four-year Budget Strategy and monitors closely, on a predictive out turn basis, the anticipated spend against the approved budget for revenue and capital. Financial controls are a standing item in the internal audit plan, which is risk based.</p> <p>Performance management scorecards are owned by the appropriate committee and reported against thresholds on a quarterly basis. Oversight is carried out by the PMTP.</p> <p>External assurance will be sought through Internal Audit.</p>

Recommendation 3

Assess the strategic and operational impact of the proposals contained within 'Policing in the 21st Century' as they take on greater shape and clarity.

Responsibility	Chief Constable, Chief Executive, and the Strategic Policing Committee
Priority	Medium/High
Date	Before May 2012
Comments	The overall details of the primary legislation will not be known until December 2010, whilst the secondary legislation, which is expected to contain the precise detail, is due in the spring of 2011. The Police Authority remains actively engaged with the strategic debate at the national level, and the Chief Constable and ACPO are active nationally on the operational implications. The Chair of the Police Authority and the Chief Constable meet on a regular basis to exchange information. The Chief Constable acknowledges that the new vision offers an opportunity to change the way the Constabulary works. The Force is already reviewing the way it does business to deliver transformation change and this should provide a good base in enabling the new challenges to be met.

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