

Annual Audit Letter

Derbyshire Police Authority

Audit 2010/11



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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

I issued an unqualified opinion on your financial statements on 28 September 2011.

Your arrangements for the preparation and submission of financial statements remained good and were consistent with the previous year. The financial statements presented for audit were complete and supported by good quality working papers. The audit process was aided by the prompt response of officers to requests for additional information made by the audit team. During the audit, management agreed to make minor adjustments to the accounts in response to our

recommendations. These adjustments had no impact on the Authority's operating costs.

Value for money

My conclusion on your arrangements for securing economy, efficiency and effectiveness in the use of resources was informed by our work which assessed your performance against criteria specified by the Audit Commission. I issued an unqualified conclusion.

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

Current and future challenges

Over the course of the previous year you have operated within a very dynamic and challenging environment whilst having to manage the issues arising as a result of your uncertain future.

Current and future challenges include the following.

Police Reform and Social Responsibility Act 2011

The Act received Royal Assent on 15 September 2011. Members have received reports from officers providing detail of the five distinct policy areas, and in particular; police accountability and governance which 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:

- Secretary of State guidance on police and crime plan content;
- Practical guidance on the inter-relationship between the PCC, the CC and the Police and Crime Panel;
- Public information requirements;
- “Dual accounts” –the separate accounting arrangements for the PCC and

- CC; with the expected requirement of group accounts;
- How the period from 1 April 2012 to 21 November 2012 will be accounted for - separate accounts or as part of successor bodies;
- Arrangements for the transfer of assets;
- Dispute resolution protocols; and
- Appointment process and period of appointment of an external auditor.

Drawing upon this legislation and guidance the Authority will need to ensure that the new arrangements go operational and have in place:

- Necessary staff;
- Appropriate IT and other systems;
- Required service contracts; and
- A draft governance framework for approval.

It is a significant task for you to prepare for the implementation to the new arrangements against a tight timescale, notwithstanding the later date for PCCs to take office. The recently established Transition Board will have a key role in meeting that challenge.

Economic downturn and pressure on the public sector

You successfully delivered an underspend of just over £5 million against your revenue budget for 2010/11 (the underspend was higher than originally forecast as a result of the implementation of International Financial Reporting Standards - IFRS). This enabled a transfer of unallocated balance of £1.49 million to the Operational Funding Reserve. The economic downturn, together with the financial pressures faced by the public sector, continues to represent a significant challenge.

The successful implementation of the 'Moving Forward Programme' has already helped achieve savings of £6.5 million following the reduction in territorial divisions and deletion of a significant number of police staff support posts.

Looking ahead, you face a reduction in government funding of £14 million by

the end of 2012/13. To help meet this challenge a second phase of the Moving Forward programme will aim to deliver savings of £12.5 million per annum. This will have a direct impact on the workforce with a combination of a recruitment freeze and reduction in police officer numbers. Up to the end of month 5 in the current year you are reporting forecast revenue underspend of £5.7 million (of which £2.5 million is directly attributable to 'Moving Forward'), Police Staff vacancies and Police Officer reductions in numbers account for a significant part of the remaining underspend.

Joint arrangements / shared services

In conjunction with other police forces, the Derbyshire force has worked collaboratively across the East Midlands over the 2010/11 year and this approach has led to efficiencies in operational activity together with forecast cash savings in excess of £5.5 million over a five year period. The impact of the changes to the Authority arising out of the 'Police Reform' Bill will need to be managed so that it does not have a detrimental effect on partnership and collaborative working.

Financial statements and annual governance statement

Your financial statements and annual governance statement are an important means by you accounts for your stewardship of public funds.

Overall conclusion from the audit

I issued an audit report including an unqualified opinion on the financial statements on 28 September 2011. This was within the statutory deadline for the publication of the accounts

My review of your financial statements did not identify any significant errors which affected the outturn as reported in the unaudited statements. We identified a small number of minor errors and officers agreed to make the necessary amendments to the statements.

The quality of the financial statements presented for audit had maintained the good standard of previous years. The financial statements presented for audit were complete and supported by good quality working papers and the audit process was aided by the prompt response of officers to requests for additional information made by the audit team.

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. There were no significant matters I brought to the attention of those charged with governance although we discussed some matters with officers.

I did not encounter any significant difficulties during the course of my audit.

There were no significant matters arising during my audit that required discussion with management. There were no other significant matters relevant to the reporting process noted at this time.

Significant weaknesses in internal control

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

Value for money

I considered whether you are managing and using your resources 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 assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion was that you have adequate arrangements to secure, economy, efficiency and effectiveness in your use of resources.

A summary of my conclusion on each of the two areas as set out in my Annual Governance Report is included 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 that you face 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 following:</p> <ul style="list-style-type: none">■ You have an established programme of integrated financial planning and a Medium Term Financial Plan (MTFP) linked to the priorities of the service and service planning; and you actively use performance and financial data to challenge the use of resources for delivery of policing priorities.■ You have a good track record of operating within your budget and provide challenge and scrutiny to financial plans. There is an environment where there is a good understanding and challenge about finances in the organisation and that ensures transparency.■ Our previous assessments of the effectiveness of use of resources found evidence that you

Criterion

Key messages

have a clear understanding of your costs and performance and the effect that the local environment has on these.

- The Force has a successful record of achieving efficiencies and over the last few years has achieved around £40 million of efficiency savings.
- Revenue and capital monitoring information is used to give a predicted year end position and reviews the key financial areas with detailed analysis of how each is performing and the likely impact.
- You achieved revenue and capital surpluses which exceeded that forecast and you can clearly explain and demonstrate your understanding of the reasons for this positive performance. This was a significant achievement in a difficult financial environment, and was supportive of my overall vfm conclusion.

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

- The Resources Committee scrutinise the financial and HR management of both the Authority and the Force in order to secure value for money and the optimum use of all resources.
- You challenge effectively the way the force manages its spending, and detailed reports confirm that challenging indicators are set and monitored to ensure they are achieved.
- Detailed Budget paper and precept reports enabled you to challenge the budget, consider different options and respond to the requirements of efficiency savings and linked to performance management. Reports enabled members to understand the complex issues and appraise the various options to support effective decision making.
- Value for money profiles produced by HMIC show that Derbyshire Police Authority estimated spend for 2010/11 was below average for all forces and was second lowest amongst 8 'similar' authorities. This is consistent with previous Use of Resources assessments (and also the previous HMIC reviews) that you provide an efficient service compared to money spent.
- The content of the profiles has been reviewed by the Treasurer and 'Value for Money Working Group' and enables an assessment of Derbyshire's performance to be made against other Authorities.

Closing remarks

I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Corporate Governance Committee on 29 November 2011 and will provide copies to all board members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Authority during the year.

Report	Date issued
Annual Governance report	27 September 2011
Auditor's report giving opinion on the financial statements	28 September 2011
Value for money conclusion and audit certificate	28 September 2011
Annual Audit Letter	29 November 2011

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

John Cornett

District Auditor

29 November 2011

Appendix 1 - Fees

	Actual	Proposed - scale	Variance
Scale fee	£82,500*	£88,496	- £5,996
Non-audit work	£0	£0	£0
Total	£82,500	£88,496	- £5,996

* In 2010/11 the audit fee was 6.8% below the scale fee. In addition Audit Commission provided a rebate on audit fees of 1.5 per cent of the scale fee. In Derbyshire Police Authority's case this amounted to £1,327.

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 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.

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.

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 conclusion.

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