

Annual Audit Letter

Avon and Somerset 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.

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Key messages

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

- **the audit of your financial statements (pages 3 to 5); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 9).**

I have included only significant recommendations in this report. The Authority has accepted these recommendations.

Audit opinion and financial statements

1 I issued an unqualified opinion on the Authority's 2009/10 Financial Statements on 27 September 2010.

2 The financial statements were amended by officers to eliminate double-counting of expenditure and income relating to Southwest One. The amount involved was material (£16 million) although the error had no net effect on the financial statements as a whole.

3 There were some weaknesses in the controls operating in the new financial accounting system (SAP) in 2009/10. Effective monitoring and reporting arrangements were in place throughout the period, and officers of the Authority and Constabulary took appropriate action to minimise the effect of these weaknesses.

Value for money

4 I issued an unqualified opinion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the financial year 2009/10.

Audit fees

5 The fee for the audit was set out in my Audit Fee Letter that was discussed and agreed with the Performance & Audit Committee in May 2009. No amendment has been necessary to the fee agreed at that date. Although additional testing was required in my audit of the financial statements due to the low level of assurance from controls operating during the implementation of the new financial system (SAP), this work has been completed within the original agreed audit fee.

Current and future challenges

6 The Authority faces some major challenges. These include:

- responding to the outcome of the consultation on policing in the 21st century, which sets out the government's vision for the future of the police service;
- responding to the government's Comprehensive Spending Review, which will require every authority across the country to make significant financial savings;
- continuing to manage the financial and operational risks, and ensuring effective governance arrangements, for the accommodation Private Finance Initiative (PFI) project; and
- preparing financial statements for 2010/11 based on International Financial Reporting Standards (IFRS).

7 The Authority has already responded to the government's consultation on its proposals for policing in the future. It understands the key challenges it faces and has a good track record of achieving efficiency saving targets; preparatory work for the 2011/12 budget setting process is already well underway.

8 The accommodation PFI project has received Home Office approval and is now moving forward. The financial and operational risks associated with this major project have been identified and arrangements have been put in place, at officer and member level, to manage these risks.

9 The Authority is currently on track to meet the requirements for preparing its financial statements for 2010/11 based on IFRS.

Independence

10 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

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.

Overall conclusion from the audit

11 I issued an unqualified opinion on the Authority's 2009/10 Financial Statements on 27 September 2010, ahead of the statutory deadline of 30 September. In my opinion the 2009/10 financial statements give a true and fair view of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the 2009/10 financial year.

Detailed findings

12 Before giving my opinion, I discussed my report, the Annual Governance Report, with the Performance and Audit Committee on 14 September. The main findings in my report were:

- the financial statements were approved by members on 29 June 2010, in line with the statutory requirements;
- the approved financial statements were amended by officers to eliminate double counting of £16 million of expenditure and income relating to Southwest One. This reduced gross expenditure from £303 million to £287 million and gross income from £79 million to £63 million; the net cost of police services was unaffected and remained at £224 million and
- a small number of non-material amendments to the disclosure notes were agreed with officers.

13 All errors were corrected in the final audited version of the financial statements.

Significant weaknesses in internal control

14 In my Annual Governance Report I also referred to weaknesses in the controls operating in the new financial accounting system (SAP). The main points to note were:

- effective monitoring and reporting arrangements were in place throughout the period, and officers of the Authority and Constabulary, took appropriate action to minimise the effect of these weaknesses; and

- there was an effective Internal Audit during the period of change and Members were kept fully up to date with developments. Internal Audit produced a comprehensive report following their review of the Authority's financial management arrangements.

15 Officers have continued work to address the recommendations from this review. Internal Audit will be carrying out a further review of the new arrangements as part of their 2010/11 audit plan.

Recommendation

R1 The Authority should, through the Performance and Audit Committee, monitor progress on the implementation of recommendations made in the internal audit report on financial management.

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 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 Table 1 shows a summary of my findings for 2009/10.

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
Risk management and internal control	Yes
Governance	Yes
Managing resources	
Natural Resources	Yes
Strategic asset management	Not applicable
Workforce	Not applicable

21 I issued an unqualified conclusion stating that the Authority had made adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

22 The main issues arising from my review were:

- Financial reporting arrangements have remained sound, despite weaknesses in internal controls following the implementation of SAP. Officers identified potential problems at an early stage and alternative controls were put in place in key areas. The timetable for the production of the financial statements was met and they were substantially SORP compliant.
- Adequate arrangements were in place for making effective use of natural resources. Over the past few years the Authority has implemented a number of energy efficiency measures. More recently the Force has embarked on the Carbon Trust's Carbon Management Programme. As well as consolidating existing programmes, it is expected to deliver a comprehensive Carbon Management Strategy and Plan. A baseline assessment is already in place to enable future efficiencies to be measured.

Recommendation

R2 The Authority should consider approving the Carbon Management Strategy and Plan and monitor progress on its implementation.

Approach to local value for money work from 2010/11

23 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.

24 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.

25 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.

Police Inspection

26 In March 2010 the joint inspectorates published 'Learning lessons: An overview of the first ten joint inspections of police authorities' by HMIC and the Audit Commission. The report highlights the key findings from the first 10 inspections. It includes examples of good practice found during the first inspections and identifies recommendations for improvement for police authorities, the association of police authorities (APA) and the Home Office.

27 Key findings from the report are set out below.

- Most of the police authorities inspected are not taking a sufficiently strategic lead in deciding the longer-term shape of policing for their area.
- Most of the police authorities inspected are effective in scrutinising everyday performance and holding their police forces to account in delivering policing priorities.
- All of the police authorities inspected can do more to secure improved outcomes for the public through effective partnerships and community engagement.
- Most of the police authorities inspected are not doing enough to ensure a clear and sustained focus on value for money and collaboration.

28 Avon and Somerset Police Authority was one of the ten joint inspections referred to in the report. The Authority was assessed as performing adequately overall and improving. It was specifically noted as performing well in developing collaborative arrangements to provide better value for money, such as the forensic science consortium. However, target setting and scrutiny of the performance of Avon and Somerset Constabulary were identified as areas for improvement.

29 The Authority has responded positively to the findings from the review. An Improvement Plan has been developed, linked to the key strategic risks identified in the Authority's risk register. This has formed the basis for key strategic priorities for 2010/11 and has been incorporated into the Authority's Business Plan. Progress on the areas identified for improvement is reviewed through quarterly monitoring reports; improvements have been reported in most areas, in particular:

- enhanced role in setting the strategic direction and priorities for the force through the Strategic Planning Working Group;
- improved target setting and scrutiny through the Performance and Audit Committee;
- developing the use of I Quanta, and other national data, to strengthen the scrutiny role; and
- continued wide-ranging consultation and engagement activity to inform priorities.

Current and future challenges

Future developments

The Authority is facing some major challenges. These include the government's vision for policing in the 21st century, the spending review, managing the risks and ensuring effective governance arrangements for the accommodation PFI, and the implementation of International Financial Reporting Standards.

30 The police sector faces an emerging set of challenges - economic, social and physical - over the short, medium and long term. It must proactively change to meet these challenges to maintain its effectiveness in serving communities and to represent value for money to the wider public purse. Along with this is an expectation from government that the service reflect localism, transparency and accountability in what they do.

Home Office consultation: Policing in the 21st century

31 This consultation (now closed) set out the government's vision for policing and how it will:

- cut crime and protect the public;
- be more directly accountable to the public; and
- offer value for money.

32 It proposes that this will be achieved through greater collaboration, the introduction of Police and Crime Commissioners, less government intervention and bureaucracy, more professional responsibility and judgement and a new policing and partnership landscape.

33 The new arrangements for Police and Crime Commissioners, planned for May 2012, will need careful planning and it is essential that the Authority is able to respond to the challenges ahead. The demise of police authorities presents significant risks. Key considerations include:

- How will the Authority manage the transfer of information to oversee what is currently a financially healthy and soundly governed organisation?
- How will the Authority ensure it preserves proper standards of governance as changes are introduced?

Spending review

34 The new coalition government announced details of its spending plans for the next few years on 20 October 2010. As expected, public sector organisations across the country will be required to make substantial financial savings.

35 The Authority has a good track record of achieving its efficiency saving targets; preparatory work for the 2011/12 budget setting process is already underway.

36 Contractual arrangements for the provision of shared services through Southwest One continue to offer significant economies of scale, providing savings in the region of £10m over the next 10 years. Service performance, business continuity and contractual risks will need managing to ensure the planned savings are realised and the Authority will need to continue to closely monitor the planned savings from the contract.

Accommodation PFI

37 The project for the accommodation PFI has received Home Office approval and is now moving forward. The financial and operational risks associated with this major project have been identified and arrangements have been put in place, at officer and member level, to manage these risks.

International Financial Reporting Standards

38 International financial reporting standards (IFRS) provide global common accounting and reporting standards. They have already been implemented by the private sector and the NHS.

39 The Authority is required to prepare financial statements based on IFRS for 2010/11. The transition to IFRS is challenging. The financial impact will vary widely from one body to another but the broader implications are wide reaching. IFRS is not just a technical accounting issue for the finance team as there are wider process and systems changes to consider across the organisation. Significant preparatory work is essential.

40 The Authority has recognised the challenges posed by IFRS. A team was established early in 2009 and has met on a regular basis to review the ongoing work in preparation for the changes. Members have also been kept informed of the key changes. A report to the Finance Committee, who are responsible for approving the financial statements, in April 2010 set out the key requirements and progress to date. A further report will be prepared for the Finance Committee in January 2011.

41 On 5 October 2010 the Commission published its latest briefing paper on IFRS in local government. This briefing paper is based on the findings from an auditor survey on the implementation of IFRS in local government, undertaken in July 2010. The survey showed that the Authority had identified the key issues and was on track to meet key milestones. The immediate challenges for the Authority are to:

- restate the 2009/10 financial statements by the end of December 2010; and
- ensure arrangements are in place to produce 2010/11 skeleton accounts including disclosures.

42 One of the Commission's key messages is that engagement between audited bodies and auditors on IFRS implementation is essential. I will continue to discuss with the Authority emerging issues and preparatory work for the transition.

Recommendation

R3 The Authority, through the Finance Committee, should ensure that adequate arrangements are in place to ensure compliance with the requirements for IFRS.

Closing remarks

43 I have discussed and agreed this letter with the Chief Executive and the Treasurer. I presented this letter at the Performance and Audit Committee on 2 November 2010 and will provide copies to all Authority members.

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

Report	Date issued
Audit Planning Letter	May 2009
HMIC/AC Police Inspection	3 December 2009
Annual Governance Report	14 September 2010
Opinion on financial statements	27 September 2010
VFM conclusion	27 September 2010
WGA Assurance Statement	28 September 2010
Annual Audit Letter	2 November 2010

45 The Authority, and Constabulary, has taken a positive and helpful approach to our audit. I wish to thank the staff for their support and cooperation during the audit.

Martin Robinson
District Auditor

November 2010

Appendix 1 – Audit fees 2009-10

	Actual	Proposed	Variance
Financial statements and annual governance statement	£70,149	£70,149	Nil
Value for money	£22,384	£22,384	Nil
Total audit fees	£92,533	£92,533	Nil

The fee for the audit was set out in my Audit Fee Letter that was discussed and agreed with the Performance & Audit Committee in May 2009. No amendment has been necessary to the fee agreed at that date. Although additional testing was required in my audit of the financial statements, due to the low level of assurance from controls operating during the implementation of the new financial system (SAP), this has been carried out within the original audit fee.

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	
The Authority should, through the Performance and Audit Committee, monitor progress on the implementation of the recommendations from the internal audit report on Financial Management.	
Responsibility	Treasurer
Priority	High
Date	Interim report to 2 November Performance & Audit Committee. Final report at May 2011 Performance & Audit Committee.
Comments	Interim report received and shows very good progress with implementing recommendations of the internal audit report on Financial Management.
Recommendation 2	
The Authority should approve the Carbon Management Strategy and Plan and monitor progress on its implementation.	
Responsibility	Chief Executive
Priority	Medium
Date	Being implemented through 2010/11.
Comments	Authority are monitoring via attendance at the Sustainability Board - one lead Member, one aligned policy officer and input from Chief Executive, Chair and Treasurer.
Recommendation 3	
The Authority, through the Finance Committee, should ensure that adequate arrangements are in place to ensure compliance with the requirements for IFRS.	
Responsibility	Treasurer
Priority	Medium/High
Date	Being implemented through 2010/11.
Comments	Lead accountants in Force Team/SWOne seconded are undergoing IFRS training in readiness for 2010/11 year end.

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