

Police Annual Audit Letter

November 2006



Annual Audit Letter

Surrey Police Authority

Audit 2005/2006

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. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

© Audit Commission 2006

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

www.audit-commission.gov.uk

Contents

The purpose of this letter	4
The responsibilities of the auditor and the Authority	4
The scope of our work	4
The audit of the accounts	5
Financial position	5
Use of resources	7
Value for money conclusion	7
Police Use of Resources Evaluation (PURE)	7
Activity Based Costing	9
Review of Crime Data Quality	9
HMIC baseline assessment	10
Police performance assessment gradings	11
Closing remarks	12

The purpose of this letter

- 1 The purpose of this Annual Audit Letter is to summarise the key issues arising from the work that we have carried out during the year. Although this letter is addressed to the members of the Authority, it is also intended to communicate the significant issues we have identified, in an accessible style, to key external stakeholders, including members of the public. The letter will be published on the Audit Commission website at www.audit-commission.gov.uk.
- 2 This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from www.audit-commission.gov.uk.

The responsibilities of the auditor and the Authority

- 3 We have been appointed as the Authority's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England, including Police Authorities.
- 4 As the Authority's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Authority achieving its objectives. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

The scope of our work

- 5 Our main responsibility as your appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:
 - the Authority's accounts; and
 - whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 6 This letter summarises the significant issues arising from both these areas of work and highlights the key recommendations that we consider should be addressed by the Authority. A list of all reports issued to the Authority in relation to the 2005/06 audit is provided in the closing remarks section at the end of this letter.

The audit of the accounts

- 7 We gave an unqualified opinion on the financial statements on 29 September 2006 in advance of the deadline of 30 September.
- 8 The accounts presented for audit were available on time and were supported by good quality working papers. We reported our key findings to the Audit Committee in our annual governance report on 21 September 2006.
- 9 We made one recommendation in relation to the accounts. This was to obtain a professional valuation of Police Houses as part of the preparation for the 2006/07 accounts.

Financial position

- 10 We commented last year that reserves were higher than for many other Police Authorities. The Authority, via its sub-finance panel, developed a three-year plan to reduce the general reserve to £7.3 million by 31 March 2009. As part of this plan, the Authority planned to use £0.9 million of its general reserve for 2005/06. In the event, general reserves increased by £1.3 million representing £2.2 million less spending than originally planned.
- 11 The bulk (£1.6 million) of this difference relates to the accounting treatment for the payment of pensions. These are paid in advance each month but in previous years these had not been recorded as a prepayment in the financial statements. This has been corrected in 2005/06 which has reduced expenditure by £1.6 million.
- 12 The effect, however, is that reserves have continued to grow (Table 1).

Table 1 Level of reserves

Reserve	2004/05	2005/06
	£m	£m
General reserve	10.3	11.6
Earmarked reserves	9.4	9.7
Capital reserves	9.0	8.8
Total available reserves	28.7	30.1

Source: financial statements for the year-ended 31 March 2006

- 13 The Authority also planned to use £2.7 million of its general reserves to support the 2006/07 budget. Effectively this will now be funded from earmarked reserves because £2.7 million of the police pension fund reserve has been moved to the general reserve. This was made possible because the liability for funding of police pensions (other than for ill-health retirements) was transferred to the Home Office on 1 April 2006.

6 Annual Audit Letter

- 14 Capital expenditure incurred during the year was £9.7 million compared to planned spending of £16.4 million. This under spend was due to delays in some of the major schemes, most notably in relation to the Force Archive Facility. The Authority and Force are working together to consider how best to ensure that projects are completed within defined timescales and have benefits that can be realised and evaluated.
- 15 The Authority funded most of its capital spending from capital grants from the Home Office. Capital reserves remained largely unchanged at £8.8million. The Authority plans to use these reserves to fund the capital programme in 2006/07 onwards. The Authority has no external borrowing.

Use of resources

- 16 We are required to issue a conclusion on whether we are satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is assessed against criteria specified by the Audit Commission and is known as the value for money conclusion.
- 17 We are also required to assess how well police authorities manage and use their financial resources by providing scored judgements on the Authority's arrangements in five specific areas. This is known as the Police Use of Resources Evaluation (PURE) and was completed for the first time in 2006. The results of this work were shared with Her Majesty's Inspectorate of Constabulary (HMIC) to inform its baseline assessment.
- 18 We have also carried out further reviews to assess the quality of crime recording data and the implementation and use of Activity Based Costing. These audits build on results of previous audits and were undertaken in partnership with the Police Standards Unit (PSU) of the Home Office.

Value for money conclusion

- 19 We concluded that the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources and therefore an unqualified value for money (VFM) conclusion was issued.

Police Use of Resources Evaluation (PURE)

- 20 We assessed the Authority's arrangements in five areas. Each area was scored from 1 to 4:
- 1 = below minimum requirements – inadequate performance;
 - 2 = only at minimum requirements – adequate performance;
 - 3 = consistently above minimum requirements – performing well; and
 - 4 = well above minimum requirements – performing strongly.
- 21 Overall we assessed that Surrey Police Authority was at level 3. This means that the Authority was consistently above minimum requirements or, in other words, performing well.

22 The results for each of the five areas are set out below.

Table 2 Police Use of Resources Evaluation Scores

Area	Score
Financial reporting	3
Financial management	3
Financial standing	3
Internal Control	2
Value for money	3
Overall	3

23 Internal control was assessed at level 2 (only at minimum requirements). This was because although appropriate arrangements had been put in place some of these still needed to become embedded. For example:

- the Force has a register of interest for staff other than police officers but this has not been publicised and is not widely used; and
- the Authority has only recently put an Audit Committee in place.

24 All other areas were assessed at level 3 (consistently above minimum requirements). For each of these areas we have identified opportunities for improvement:

- financial reporting would be enhanced by continuing the improvement in the quality of the financial statements presented for audit;
- the Authority's arrangements for financial management would be strengthened by articulating its medium term financial strategy in a single document;
- the Authority's arrangements for financial standing would be strengthened and made more transparent if the policy on reserves were discussed and determined and published by the full Authority; and
- the Authority's arrangements for securing value for money would be strengthened by developing and evidencing wider and more systematic use of benchmarking.

25 The Authority and Force are implementing an action plan to address these issues.

Activity Based Costing

- 26 We assessed the implementation of Activity Based Costing (ABC) by considering whether the Authority has systems in place to produce an accurate submission of costing data to the Home Office.
- 27 We assessed the arrangements for ABC as 'fair' (which represents an improvement from last year) and the quality of the data submission as 'poor' (which represents a deterioration in our score from last year). Detailed findings were set out in our report dated June 2006. The Force and Authority are working to improve the quality of the costing data submitted to the Home Office for future years.

Review of Crime Data Quality

- 28 We reviewed the arrangements in place for recording and reporting crime data and the accuracy of the data recorded. We focused on elements of data reported in the Police Performance Assessment Framework (PPAF).
- 29 We assessed the arrangements for recording and reporting crime data as 'fair' which represents a sustained performance compared to last year. We also assessed the accuracy of the data recorded 'fair'. This represents a deterioration in our score from last year.
- 30 Our detailed findings are set out in our report dated July 2006. The key issue that needs to be addressed is the lack of integration between the Force's system for recording incidents and the system for recording crime. This does not allow robust audit and interrogation and does not enable efficient compliance with national standards. We have agreed an action plan with the Authority and Force to take these issues forward.

HMIC baseline assessment

- 31 For each Force Her Majesty's Inspectorate of Constabulary (HMIC) publishes a baseline assessment. This assesses a range of policing activities as delivering performance that is Excellent, Good, Fair or Poor. The assessments are informed by our work on Police Use of Resources Evaluation and focus on the high-level processes of police forces and their results. The 2006 baseline assessments for Surrey Police were published on 24 October 2006 and are summarised below. The full report is available on www.inspectorates.homeoffice.gov.uk/hmic.

Table 3 2006 Baseline assessment – summary of judgements

Summary of Judgements	Grade	Direction of Travel
Citizen Focus		
Fairness and Equality in Service Delivery	Fair	Improved
Neighbourhood Policing and Problem solving	Good	Improved
Customer Service and Accessibility	Good	Improved
Professional Standards	Good	Not graded by HMIC
Reducing Crime		
Volume Crime Reduction	Good	Improved
Investigating Crime		
Managing Critical Incidents and Major Crime	Good	Stable
Tackling Serious and Organised Criminality	Good	Stable
Volume Crime Investigation	Fair	Stable
Improving Forensic Performance	Good	Stable
Criminal Justice Processes	Fair	Stable
Promoting Safety		
Reducing Anti-Social Behaviour	Good	Improved
Protecting Vulnerable People	Good	Improved
Providing Assistance		
Contact Management	Good	Stable
Providing Specialist Operational Support	Good	Stable
Strategic Roads Policing	Good	Stable
Resource Use		
Human Resource Management	Good	Stable
Training, Development and Organisational Learning	Good	Improved
Race and Diversity	Good	Stable
Managing Financial and Physical Resources	Good	Stable
Information Management	Good	Improved
National Intelligence Model	Good	Stable
Leadership and Direction		
Leadership	Excellent	Not graded by HMIC

Summary of Judgements	Grade	Direction of Travel
Performance Management and Continuous Improvement	Good	Improved

Police performance assessment gradings

- 32 In addition to the qualitative assessments contained in HMIC's baseline assessment, force performance is also measured by a series of key quantitative indicators. These are then combined with HMIC's baseline assessment to provide a fuller picture of police performance. The joint results were also published on 24 October 2006 and the results for Surrey Police are summarised below. The full results are available on www.police.homeoffice.gov.uk/performance-and-measurement.

Table 4 Police performance assessment

Performance Area	Delivery	Direction
Reducing Crime	Good	Stable
Investigating Crime	Fair	Stable
Promoting Safety	Good	Improved
Promoting Assistance	Good	Stable
Citizen Focus	Fair	Stable
Resource use	Excellent	Improved
Local Policing	Excellent	Improved

Source: www.police.homeoffice.gov.uk, October 2006

Closing remarks

- 33 This letter has been discussed and agreed with the Chair of the Audit Committee and officers from both the Force and Authority. A copy of the letter will be presented at the Audit Committee on 12 December 2006 and copies will be provided to all Authority members.
- 34 Further detailed findings, conclusions and recommendations on the areas covered by our audit are included in the reports issued to the Authority during the year. These are listed in the following table.

Table 5

Report	Actual date of issue
Audit Plan	March 2005
Annual Governance Report including Opinion on Accounts and VFM Conclusion.	September 2006
PURE Interim Report	July 2006
PURE Final Report	November 2006
Activity Based Costing	June 2006
Crime Data Quality	July 2006
Annual Audit Letter	November 2006

- 35 I would like to take this opportunity to thank the Authority and the Force for the assistance that we received during the course of the audit.

Peter Arkell

District Auditor
November 2006