

Annual Audit Letter

Surrey Police Authority

Audit 2008-2009

November 2009



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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.
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Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Audit Opinion

- 1 I issued an unqualified audit opinion on the accounts on 30 September 2009.
-

Financial Statements

- 2 The financial statements were of a high standard. The arrangements for the production of the Authority's financial statements are sound and we did not identify any errors of a material nature during the audit. There were a small number of non trivial errors which management decided not to amend in the accounts. Appropriate representations were provided by management regarding these errors and we were satisfied that they did not have a material impact on the financial statements.
 - 3 The working papers supporting the statements were provided on a timely basis, clearly presented and of a good quality. The finance team were very helpful and, on the whole, responded quickly to our queries. The use of an issues tracker this year helped considerably in managing the audit process. The finance team had responded to the recommendations made following last year's audit and the difficulties previously experienced were not a factor during this year's audit.
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Use of Resources and Value for money conclusion

- 4 I have assessed how well the Authority is managing and using its resources to deliver value for money and better and sustainable outcomes for local people. My assessment considers how well the Authority performs across three areas:
 - Managing finances.
 - Governing the business.
 - Managing resources.
- 5 I have assessed the Authority as performing well in its use of resources during the year (a score of 3 out of 4). On 30 September I issued an unqualified value for money conclusion stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources during 2008/09.

Council Tax Capping

- 6 The Authority was faced with the potential capping of its council tax revenues following the setting of its budget in 2008/09. The Secretary of State for Local Government decided not to cap the budget in 2008/09 but took steps to limit the Authority's budget in 2009/10. Following the 2009/10 budget process council tax was capped by the Secretary of State. This will reduce council tax revenue for 2009/10 by £1.6m and means the Authority will incur additional rebilling costs which could be as high as £1.2m.
- 7 The recurrent capping issue raises questions about how effectively some of the risks surrounding financial planning have been managed. However, the Authority has been able to demonstrate it was very aware of the risk of capping and took steps to mitigate this risk. We also acknowledge that the capping criteria were not made clear until after the budget was set and council tax bills had been sent.

Economic downturn and pressure on the public sector

- 8 The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. The impact on treasury management strategies has been immediate, but there are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams. There are further challenges for policy priorities where patterns of demand for services are changing.
- 9 The Authority entered the current economic downturn facing some significant medium term financial challenges. The generally accepted trend is that crime increases during periods of recession. This may be coupled with changes in the patterns of crime. The Authority and Force therefore face the difficult challenge of needing to reduce costs whilst at the same time being able to respond flexibly to a potential increase in the demand for, and pattern of, its services. This was successfully managed in 2008/09 and savings in excess of those identified in the budget were delivered. The Force also demonstrated an improvement in key indicators, such as public satisfaction. However, the capping of its budget in 2009/10 places additional pressure on the Authority's resources at this time of increased financial challenge.

Financial Management

- 10 Surrey Police has consistently met its key financial targets during this and previous years. It has a strong track record in relation to the identification and achievement of savings via its Efficiency Plans. The Force achieved savings of £5.3m in 2008/09. This exceeded planned savings of £3.6m which had been identified as part of the budget setting process.

Key messages

- 11** In the medium term, the Authority faces significant financial challenges. The initial work on the medium term financial plan sensibly analysed the funding gap over the next 3 years on a best case scenario (£17.6m) and a worst case scenario (£26.7m). The medium term plan is being reviewed on a monthly basis as part of financial reporting processes and the latest forecast is a funding gap of £24.5m. This situation takes into account the adverse impact of the capping of council tax in 2009/10 and the additional costs that will be incurred in rebilling.
- 12** The Authority and Force have been quick to acknowledge that there are significant threats to the financial position posed by deficits on both the Police pension fund and its share of the Surrey local government pension fund. It has identified the financial pressures posed by the likely levels of grant funding from central government and the constraints on council tax revenues going forward. In response to these pressures Surrey Police have embarked on a strategic change programme which aims to secure savings to meet the identified funding shortfall. As part of this programme the decision was taken to reduce the number of Basic Command Units (BCU) within Surrey Police from four to three. The force has also piloted work force modernisation schemes which aim to optimise the focus of police officer time on front line policing rather than administrative tasks. Reviews of the Human Resources and Finance functions have also been undertaken to identify efficiencies in back office functions. The Force is on track to deliver a total of £23.3m of savings in the period from 2008/09 to 2010/11. The successful implementation of these efficiency and cost improvement plans remains essential to the financial security of Surrey Police.
- 13** The scale of the financial challenges facing the Authority should not be underestimated and the Force and Authority have acknowledged that they will result in the need to reduce the level of operations. There is little room for slippage in the realisation of savings or the achievement of budgets. It will be essential for management to remain focused on managing its finances and securing savings in the timeframes identified, to identify potential slippage at an early stage and, in such an event, to take immediate and robust corrective action.

Treasury Management

- 14** As part of our Use of Resources assessment we carried out a review of the Authority's treasury management activity. The Authority outsources its treasury management function to Surrey County Council under a service level agreement. Under this agreement the Authority receives interest in line with the average rate generated by the County Council's investments during the preceding quarter.
- 15** The County Council had money placed with Icelandic banks, which collapsed in October 2008. The Authority is exposed to an element of uncertainty regarding its share of these investments, approximately £1.5m. The Authority impaired the funds held with the County Council in line with the latest guidance from CIPFA. It has also taken the prudent step of setting aside additional funds as part of its medium term financial plan. These actions should enable the Authority to mitigate the impact of these losses over the medium term.

Preparation for International Reporting Standards

- 16** From 2010/11 Police Authorities will prepare their accounts in line with International Financial Reporting Standards (IFRS). One of the important lessons to be learnt, both from the private sector's experience of implementing IFRS and the experience of other parts of the public sector that are in the process of implementing IFRS for 2009/10, is that early planning and preparation are essential to ensure a smooth transition.
- 17** The Authority and Force have responded well and have already taken a number of steps to manage the transition to IFRS. There is a working group in place to identify and address the impact of the changes on financial reporting arrangements and a planned exercise to generate a set of IFRS compliant financial statements as part of the closedown process in 2009/10.
- 18** We have already established a dialogue with key officers regarding some of the main areas of accounting judgement that need to be considered as part of the transition to IFRS. The actions already taken by Surrey Police mean it is currently well placed to manage the transition to IFRS.

Audit Fees

- 19** In my initial audit plan I set out an indicative fee of £86,235. At that stage I stated that I would keep the fee under review. With the audit now complete I am happy to report that I do not propose any variation to my initial fee.

Table 1 **Audit fees**

	Actual	Proposed	Variance
Financial statements and annual governance statement	£66,492	£66,492	-
Value for money	£19,743	£19,743	-
Total audit fees	£86,235	£86,235	-

Independence

- 20** 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.

Significant issues arising from the audit

- 21 I issued an unqualified opinion on the Authority's financial statements on 30 September.
 - 22 I did not identify any material errors in the financial statements, but some non trivial errors were identified. Management agreed to amend the accounts for the majority of these items and provided adequate explanations and reasons for those where no amendment was made.
-

Material weaknesses in internal control

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

Accounting Practice and financial reporting

- 24 I considered the qualitative aspects of your financial reporting arrangements and there were two issues that I brought to the Committee's attention.
- 25 As part of the closedown process members are asked to submit an annual return which lists any organisations with which the Authority transacts in which members may be considered to have an interest. These returns are then used to compile disclosure of Related Party Transactions (RPTs) in the financial statements. This year two returns were not completed until after the draft accounts had been approved, which raised a question over the completeness of the RPT disclosure at the time the accounts were approved. The Authority should review its arrangements for obtaining Related Party Transaction returns and ensure that the process is completed in time to inform the production of the draft financial statements.
- 26 The fixed asset register contains a large number of fully depreciated ICT assets and vehicles. There is a risk that the gross book value of the Authority's assets is overstated and that the Authority is holding records for assets which have either been disposed off or decommissioned. We were satisfied that this issue has not resulted in a material misstatement in this year's accounts. However the Authority should carry out an exercise to review the contents of its fixed asset register. The planned move to an Oracle based register during 2009/10 provides an appropriate opportunity to do this.

Value for money and use of resources

I considered how well the Authority is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Authority put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 27** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 28** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 29** The Authority's final use of resources theme scores are shown in Table 2 below. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 1.

Table 2 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	2
Managing resources	3

- 30** My overall assessment of the organisation is that it is performing well above minimum standards in its Use of Resources and has scored a 3 out of a possible 4. Detailed findings have been included in Appendix 1.

VFM Conclusion

- 31** I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out in Appendix 1.
- 32** I issued an unqualified conclusion stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Closing remarks

- 33** I have discussed and agreed this letter with the Treasurer and the Deputy Chief Executive. I will present this letter at the Audit Committee on 14 December 2009 and will provide copies to all authority members.
- 34** 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.

Table 3

Report	Date issued
Annual Audit Plan	June 2008
Annual Governance Report	September 2009
Opinion on the financial statements	September 2009
Value for money conclusion	September 2009
Annual Audit Letter	November 2009

- 35** The Authority and Force have taken a positive and constructive approach to our audit. I wish to thank them for their support and co-operation during the audit.

Paul Grady
 District Auditor
 November 2009

Appendix 1 – Use of resources key findings and conclusions

The following tables summarise the key finding and conclusions for each of the three use of resources themes.

Table 4 Managing finances

Theme score - 3

The organisation manages its finances very effectively and demonstrates good value for money. There is a clear understanding of what the organisation hopes to achieve and this has been informed by extensive consultation with local people. Resources are effectively targeted at priority areas and outcomes are measured. There is a strong value for money culture in place and an ongoing efficiency programme, which has not had a negative impact on service delivery. In fact the key measures of confidence and satisfaction have increased during the same period. The recurrent capping issue does though raise questions about how effectively some of the risks surrounding financial planning have been managed. However, the Authority was able to demonstrate it was very aware of the risk of capping and took steps to mitigate this risk. We also acknowledge that the capping criteria were not made clear until after the budget was set and council tax bills had been sent. The ability of the Authority to respond quickly to the capping decision and to adjust medium term business plans to take account of the reduced budget demonstrates the Authority is in control of its finances and understands the consequences of its decisions.

The Authority has a sound understanding of its costs and makes effective use of this understanding to inform decision making. There is extensive and effective use of benchmarking information and this is used to focus on areas where costs appear high. The organisation demonstrates a culture which continually seeks to identify further savings. The current efficiency plan is delivering savings and progress is closely monitored throughout the year.

Historically financial reporting is sound and the difficulties encountered during closedown in 2007/08 were successfully addressed during 2008/09. The organisation keeps the public well informed in many areas and this has been highlighted particularly during the recent capping issue. However the reporting of financial performance, for example through summary accounts or an annual report, is less well developed and the Authority should consider an appropriate means of providing the public with information on financial performance which is pitched at the appropriate level.

Appendix 1 – Use of resources key findings and conclusions

Theme score - 3	
<p>KLOE 1.1 Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?</p> <p>Score VFM criterion met</p>	<p>3 Yes</p>
<p>KLOE 1.2 Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?</p> <p>Score VFM criterion met</p>	<p>3 Yes</p>
<p>KLOE 1.3 Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?</p> <p>Score VFM criterion met</p>	<p>2 Yes</p>

Table 5 **Governing the business**

Theme score – 2

The Authority can demonstrate that it commissions and provides quality services which are tailored to local needs. It is able to demonstrate that it delivers sustainable outcomes and good value for money for local people. There is a clear vision of what the organisation wants to achieve and these are reflected in the Local Policing Plan. This has been developed by the Authority and Force and focuses on local priorities and needs as informed by extensive and ongoing consultation with local people. This has led to the development of the "Surrey First" discretion project and a greater focus on neighbourhood policing through Crime and Disorder Reduction Partnerships

Performance is monitored continually using generally sound data. The Authority and Force have acknowledged the need to improve the use and quality of data in some areas and the replacement of the current Crime Information System should achieve the required improvements. The organisation can demonstrate effective joint procurement which has resulted in net benefits to the taxpayer.

The Authority promotes and demonstrates the principles and values of good governance. It has started work on a member development charter which includes the promotion of the 360 degree appraisal. The plan also sets out what the Authority seeks to achieve through its training and development plans for members and how that achievement can be identified, assessed and evaluated. This was endorsed by the South East Employers (an employers' organisation which represents the interests of local authorities and public bodies) in December 2008. Given the anticipated turnover of members following the June elections the Authority has sensibly postponed full implementation of these processes meaning that the outcomes from these changes cannot yet be fully assessed.

During 2008/09 the Force and Authority had draft Partnership Strategies in place, which demonstrate how they expect to achieve their aims through partnership working. Work has been done to identify significant partnerships and seeks to work constructively with them in order to achieve common aims. An example of the strategic approach to partnerships has been the recent decision to review and reduce funding to selected bodies where they do not align with the strategic direction of Surrey Police. The aim is to ensure that resources are directed to providing effective outcomes, whilst focusing on value for money.

There is a sound system of internal control in place and effective risk management at a Force and Authority level. During the year a new Authority risk register was compiled, with the assistance of Internal Audit. This has enabled the Authority to see with more clarity, and manage more actively, the risks relating to them. Risks continue to be linked to strategic plans and objectives. With the change in Internal Auditors in 2008/09 the Authority has also introduced a more risk based approach to the way that internal audit resources are used. These new arrangements should enable the Authority to demonstrate the impact and improvements which are achieved over the life of the IA contract and we will assess the impact and outcomes achieved during future Use of Resources assessments.

Appendix 1 – Use of resources key findings and conclusions

Theme score – 2	
<p>KLOE 2.1 Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?</p> <p>Score VFM criterion met</p>	<p>3 Yes</p>
<p>KLOE 2.2 Does the organisation produce relevant and reliable data and information to support decision making and manage performance?</p> <p>Score VFM criterion met</p>	<p>2 Yes</p>
<p>KLOE 2.3 Does the organisation promote and demonstrate the principles and values of good governance?</p> <p>Score VFM criterion met</p>	<p>2 Yes</p>
<p>KLOE 2.4 Does the organisation manage its risks and maintain a sound system of internal control?</p> <p>Score VFM criterion met</p>	<p>2 Yes</p>

Table 6 Managing resources

Theme score - 3

Surrey Police has been a pilot force for workforce modernisation and has introduced changes across the Force so that a number of former police officer posts are now covered by police staff. It has been a showcase for others and led to a range of key changes. The pilot has resulted in the optimisation of the workforce mix across the Force. It has also meant reduced staff costs and the release of operational police time for front line duties. Savings of £1m have already been made and further savings of £1.6m are expected over the next two years.

There is a medium term Human Resources Strategy in place which is in line with the strategic priorities of Surrey Police. It is part of this strategy to ensure that the Force is equipped with the right people, with the right skills in the right place at the right time. The strategy provides the context for annual workforce planning which sets out where there is need to increase or reduce resources during the financial year and the impact of such decisions. Progress is monitored through the Strategic Change Board on a monthly basis using an allocation and strength report, which allows senior leaders to monitor actual resources against its budgeted allocation. The report also identifies trends and risks to resources and subsequent skills profiles via an analytical dashboard tool. This product provides a six month overview of the percentage of constables and sergeants available for duty against the budgeted establishment. The resulting data is presented against tolerance levels which indicate whether the Force, or local command unit, is operating against low, medium or high risk bands. This effective planning and monitoring of its workforce has allowed the Force to manage demand effectively and develop policing solutions that meet local needs on the basis of risk and associated costs. This approach has been essential to the Force achieving its efficiency targets.

During the last two years, Surrey Police has been managing significant change programmes across support services in order to improve efficiency and optimise the use of resources so as to help to close the budget gap. These programmes have primarily affected Human Resources and Finance & Services, but are now rolling out to other support services such as Fleet and the Strategic Support Department. Prior to this the Force successfully moved from 4 to 3 Basic Command Units (BCUs) in 2007/08. The initial indications are that these changes have been successfully managed but a greater distance in time is required before the full impact can be assessed.

There are some good examples of innovation. Surrey Police has introduced the concept of Recruit Training Modernisation. Working in partnership with Portsmouth University, it has developed a 'Policing Certificate' which can be taken through participating colleges and universities alongside a distance learning programme. Once obtained, it will mean that a significant proportion of a recruit's initial training programme has already been completed. This reduces the amount of classroom time required in the training phase of their probationary period and the projected cashable savings for the next two years amount to £0.6m.

Appendix 1 – Use of resources key findings and conclusions

Theme score - 3	
<p>The Force Diversity Directorate and Recruitment department have worked together to put a full programme in place for attracting under-represented groups during police officer recruitment campaigns. Support and guidance is given with applications and the team works in partnership with Surrey University to make available a language course for those whose first language is other than English. This course is in its early stages with small numbers. Surrey Police has a comprehensive and well understood policy on diversity and that policy and related procedures are held on the intranet. All staff receive training on diversity. Diversity training is also provided for Authority members.</p>	
KLOE 3.3 (workforce planning)	
Score	3
VFM criterion met	Yes

The Audit Commission

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