

Audit Detailed Report

November 2007



# **Annual Audit Letter**

**Surrey Police Authority**

**Audit 2006/07**

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. Appointed auditors address their reports to non-executive directors or officers and for the sole use of the audited body. Auditors accept no responsibility to:

- any directors in their individual capacity; or
- any third party.

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# Summary

## Key messages

- 1 Surrey Police Authority's (the Authority) financial statements for 2006/07 were of a very high quality, produced on time and were supported by excellent working papers. There were no significant amendments resulting from the audit of the draft statements. Financial systems supporting the accounts were generally robust and operating effectively. We issued an unqualified audit opinion on 26 September 2007.
- 2 We also issued an unqualified opinion on the Authority's arrangements to secure good value for money in its use of resources. This opinion was underpinned by our work on data quality and Police Use of Resources (PURE).
- 3 The Authority and Surrey Police Force (the Force) have good arrangements to secure data quality. This is a marked improvement on our assessment from last year. Pro-active leadership and programme management are delivering clear improvements in data quality. Crime recording is good, and user satisfaction data is excellent.
- 4 In its use of resources Surrey Police has made clear strides forward from an already strong performance last year, and is aspiring towards best practice in all areas. Among the key improvements, Surrey Police has:
  - published its medium term financial strategy in a single document;
  - developed an asset management strategy and new arrangements for managing the capital programme;
  - established an Audit Committee;
  - addressed weaknesses in its Activity Based Costing systems; and
  - publicised improved arrangements for declarations of gifts and hospitality by police staff.
- 5 The Authority has an impressive track record of maintaining strong financial standing, meeting its financial targets and delivering efficiency savings. The Authority met its financial targets this year, with some planned use of revenue reserves.
- 6 The Authority faces a challenging position going forward. It is currently on course to meet its savings targets for 2007/08, but will need to find a further £9.1 million in the subsequent three years if it is to maintain financial balance.
- 7 Surrey Police Authority and Force have sound arrangements for promoting good value for money. Delivery of value for money is a core principle of the organisation which is necessitated by Surrey's high aspirations and tight resources. Surrey Police is high achieving but with lower than average comparative costs.

## Purpose, responsibilities and scope

- 8 This letter provides an overall summary of the Audit Commission's assessment of the Authority, based on audit work performed in relation to the accounting period ending 31 March 2007. Where relevant this work has included assessment of the arrangements in place in the police force, as well as the Authority.
- 9 This letter is addressed to members of the Authority as it is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. I have made recommendations to assist the Authority in meeting its responsibilities.
- 10 This letter also communicates the significant issues to key external stakeholders, including members of the public. The letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk). In addition the Authority is planning to publish it on its own website.
- 11 As your appointed auditor I am responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, I am required to review and report on:
  - the Authority's accounts;
  - whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
  - how well the Authority has managed its resources (Police Use of Resources).
- 12 Reports issued to the Authority relating to the 2006/07 audit are listed at the end of this letter.

## Use of resources

- 13 I am required to:
- conclude whether the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion; and
  - assess how well the Authority and Force manage and use financial resources by providing scored judgements on the arrangements in five specific areas. This is known as the Police Use of Resources Evaluation (PURE).

### Value for money conclusion

- 14 I have concluded that the Authority did have proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources. This conclusion was underpinned by our work on PURE and on data quality.

### Police use of resources scores

- 15 I assessed the Authority's arrangements in five areas and scored each area from 1 to 4 (1 = inadequate performance, 2 = adequate performance, 3 = performing well and 4 = performing strongly). A detailed report supporting the assessment and highlighting areas for improvement was issued to the Authority on 26 October 2007.

**Table 1 Police use of resources scores**

Element	Assessment
Financial reporting	3 out of 4
Financial management	3 out of 4
Financial standing	3 out of 4
Internal control	2 out of 4
Value for money	3 out of 4
<b>Overall assessment of the Audit Commission</b>	<b>3 out of 4</b>

(Note: 1=lowest, 4=highest)

- 16 Although the headline theme scores have not changed since last year, Surrey Police has made clear improvements from an already strong set of scores last year, which is reflected in improved scores on two of the sub-themes in Financial Reporting and Internal Control.

### **Financial reporting**

- 17 Surrey Police produced a model set of accounts and supporting working papers. This year saw a step improvement in the quality and timeliness of the production of those accounts. A robust closedown plan enabled Surrey Police to produce its draft accounts and working papers by the second week in June, earlier than most if not all Police Authorities. Supporting working papers were provided in electronic format on CD at the outset of the audit. These papers were clear and easy to follow. Finance staff were very helpful throughout the audit process and responded to all queries promptly. There were very few amendments to the accounts and none of those amendments were material.

### **Financial management**

- 18 Surrey Police's financial management is driven by the Authority's corporate objectives and priorities. Surrey Police has recently published a new Medium Term Financial Strategy, which brings together the various financial plans and policies in a single document. The Authority has also recently developed new procedures to make the process for approving and monitoring the capital programme more transparent.
- 19 Surrey Police has built on its strong arrangements. When we carry out our next review we will consider the outcomes from the new policies, procedures and strategies.

### **Financial standing**

- 20 The Authority has a good track record of meeting its financial targets. Financial health indicators are actively monitored and reported to members. The Authority also assesses the adequacy of its reserves and provisions by analysing financial risks as part of the budget process.
- 21 The financial outlook for the Authority going forward is challenging. Financial targets were met in 2006/07, with some planned use of revenue reserves to support the revenue position. The Authority recognises that using reserves in this way is not sustainable in the long term.
- 22 The Authority has an impressive track record of delivering efficiency savings. The 2007/08 Efficiency Plan includes £7.2 million of budget savings. An in-year temporary savings plan, used as a tactical measure to limit the need to draw on reserves, is on course to deliver £1.9 million savings in 2007/08. However this is to a large extent being delivered through temporary measures such as holding vacancies. Again, this is not sustainable in the longer term. Surrey Police is drawing together proposals for longer-term savings.
- 23 In the three years from 2008/09 the Authority has identified a financial gap of £9.1 million to be met. This is a very substantial amount in relation to turnover and presents a significant challenge. A paper to the November 2007 finance and performance panel set out the Authority's proposals to address the shortfall.
- 24 We will continue to monitor and comment on the Authority's financial position over the coming year as part of our 2007/08 audit.

### **Internal control**

- 25 In 2006/07 Surrey Police has continued to make good progress in developing risk management arrangements and the Authority is also making improvements to its wider corporate governance arrangements. The Force launched a new register of interests, gifts and hospitality for police staff in March 2007.

### **Value for money**

- 26 Surrey Police has sound arrangements for promoting good value for money. The performance led budget setting process encourages the alignment of resources against priorities. Surrey Police is high achieving but with lower than average comparative costs.
- 27 Driving value for money continues to be a core principle of the organisation and indeed is necessitated by Surrey's high aspirations and tight resources. A number of the improvements last year, such as arrangements to manage the capital programme, were only addressed towards the end of the period under review. Surrey therefore has the opportunity to ensure these are embedded and a track record of outcomes delivered.

## **Review of police data quality**

- 28 As part of our work to underpin the value for money conclusion, we are required to review the arrangements in place to ensure data quality. The scope of our work was also agreed with the Home Office, to include a detailed review of the quality of Crime data.
- 29 We considered whether the Authority has proper arrangements in place to secure high quality key performance data, and whether these arrangements are being applied in practice. A detailed report supporting the assessment and highlighting areas for improvement was issued to the Authority on 13 June 2007. This report was also shared with the Home Office.
- 30 Arrangements for data quality in the Force and the Authority are good, and this is an improvement on our assessment for 2005/06. Strong leadership and a clear focus on improvement are delivering this improvement.
- 31 By improving its corporate arrangements, the Force has improved the quality of data. The quality of crime is good and has improved since last year's assessment. The quality of user satisfaction data is also good. Statutory performance indicators are complete, accurate and fairly stated.

## National Fraud Initiative

- 32 The National Fraud Initiative is a computerised data matching exercise designed to identify overpayments to third party suppliers and benefit claimants and to detect fraud perpetrated on public bodies.
- 33 This year's exercise at Surrey Police focused on data matches with Companies House information. There was only a small number of data matches this year, which the Finance department is following up.

## Audit of the accounts

- 34 I issued an unqualified opinion on the Authority's accounts on 26 September 2007.
- 35 Before giving my opinion, I reported to the Audit Committee on the issues arising from the 2006/07 audit in the Annual Governance Report (ISA+260).
- 36 This year's statements of accounts and supporting working papers were particularly well put together. They were provided to us on a very timely basis.
- 37 As part of our audit, we consider the systems of accounting and financial control and report to you any material weaknesses identified. Systems were on the whole robust and operating satisfactorily. We highlighted a number of minor issues, which did not impact on our opinion:
- reconciliations between pensions paid and the payroll system were not made during 2006/07. We understand this was largely due to problems with inaccurate data from the pensions system, provided externally by Paymaster. In addition, other key reconciliations (creditors, HR to payroll and overtime) had not been undertaken on a monthly basis. We understand the Force has addressed this point going forward; and
  - as part of our ownership testing of fixed assets, we vouched a sample of the Authority's land and buildings back to the title deeds, which are held by Surrey County Council. We experienced difficulties in undertaking this testing as some of the deeds could not be located. The Authority is now planning to carry out a full deeds check to provide assurance that it holds the title to all the land and buildings assets on its balance sheet.

## Whole of government accounts

- 38 Central government embarked on a programme leading to the preparation of consolidated accounts for the 'whole of government', including local government. The Authority is required to submit a 'consolidation pack' to the Department for Communities and Local Government (DCLG) and the auditor is required to undertake a range of procedures and report on the pack. We submitted the audited pack electronically to DCLG by the 1 October deadline.

## Police performance assessment

- 39 Under the Police Performance Assessment Framework (PPAF), an annual assessment is made of the Force's performance across key areas, based on the results of performance indicators and work undertaken by HMIC. It gives an assessment of performance delivered in the year and the direction of travel.
- 40 The 2006/07 assessment was very positive and showed that Surrey Police was performing strongly in most areas and either maintaining or improving its performance. The assessment identified a number of key achievements during the year including significant increases in sanction detections (those crimes for which someone is charged, summonsed, receives a caution or other formal sanction), improved customer satisfaction and the development of workforce modernisation. The assessment noted that the main challenge going forward is to sustain this performance going forward.
- 41 These results were published on the 9 October 2007 and the full results are available on [www.police.homeoffice.gov.uk/performance-andmeasurement](http://www.police.homeoffice.gov.uk/performance-andmeasurement).

**Table 2 Police performance assessment**

Performance Area	Delivery 2006/07	Direction of Travel
Tackling Crime	Excellent	Stable
Serious Crime and Public Protection	Excellent	n/a
Protecting Vulnerable People. <ul style="list-style-type: none"> <li>• Child abuse investigations.</li> <li>• Domestic violence.</li> <li>• Missing persons.</li> <li>• Public protection.</li> </ul>	Excellent Excellent Excellent Excellent	n/a n/a n/a n/a
Satisfaction and Fairness	Fair	Improved
Implementation of Neighbourhood Policing	Excellent	n/a
Local Priorities	Good	n/a
Resources and Efficiency	Excellent	Improved

Source: [www.police.homeoffice.gov.uk](http://www.police.homeoffice.gov.uk), October 2007

## Closing remarks

- 42 We have discussed and agreed this letter with the Director and Treasurer of the Authority. We plan to present the letter at the Audit Committee on 11 December 2007 and to provide copies to all Authority members.
- 43 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Authority during the year.

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**Table 3      Reports issued**

<b>Report</b>	<b>Date of issue</b>
Audit plan	15 March 2006
Interim audit memorandum	14 June 2007
Review of police data quality	13 June 2007
Annual Governance Report	21 September 2007
Opinion on financial statements	26 September 2007
Value for money conclusion	26 September 2007
Police Use of resources	26 October 2007
Annual audit letter	28 November 2007

- 44 I should like to take this opportunity to thank the Authority and the Force for their support and co-operation during the audit.

**Nick Ward**  
**District Auditor**

November 2007