

Annual Audit Letter

Surrey Police Authority

Audit 2007/08

Date **November 2008**

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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.

Summary

Key messages

- 1 During 2007/08 Surrey Police achieved excellent value for money by delivering high performance across a range of key services while keeping overall costs to the taxpayer at a relatively low level. The processes for managing and improving value for money are robust and optimising value for money continues to be a core principle of the organisation.
- 2 Implementing the current strategic change programme successfully will be essential to delivering the Local Police Plan and to securing the financial standing of Surrey Police in the long term. In the short to medium term the Authority will face some difficult, and significant, financial challenges; the decision by central government to 'nominate' the budget in 2009/10 will place additional pressures on an already tight financial position.
- 3 As at October the organisation was predicting a funding shortfall of £13.1 million over the next three years. There is further potential for this gap in resources to increase as a result of the current financial crisis. At present efficiencies have been identified which aim to secure £12.3 million in savings over a five year period, but these will not meet the gap in full. As with any plan of this nature there is the risk that not all of the savings identified will be achieved and, when combined with the difference in the timing of the financial pressures and phasing of the planned savings, this poses a significant threat to the Authority's financial position.
- 4 The audit of the Authority's financial statements in 2007/08 did not go as well as expected. The volume and nature of issues identified in the accounts presented for audit were more significant than anticipated and reflected deterioration from previous years. In addition, the finance team faced pressures during the closing processes due to additional work surrounding the restructuring of the Basic Command Units and the redeployment of key staff to the new financial systems implementation project. This resulted in delays to the audit process and led to the audit taking substantially longer than planned. It also led to the need to increase resources to deliver the audit. Following amendments to the accounts by management, we issued an unqualified opinion on 30 September 2008.
- 5 The Police Use of Resources (PURE) Assessment in 2008 demonstrated a positive direction of travel. Although the overall score remains a 3, the score for the internal control theme increased from a 2 to a 3 and value for money theme increased from a 3 to a 4 when compared to the assessment carried out in 2007. Of particular note are the arrangements in place for allocating resources against priorities, which represent an example of good practice, and the opportunities being explored in relation to sharing assets with local partners, which, if realised, should secure better value for money and provide more opportunities for partnership working in local areas.
- 6 There remain areas where the Authority could secure further improvements. Risk management arrangements could be strengthened by formally identifying and managing the risks in relation to key partnerships. A structured approach to Member

development has been introduced but has received a mixed reception with a variable take up from members. Particular attention should be paid to maximising member attendance for the training available on financial issues.

Recommendations

Recommendation	
R1	Revisit the phasing of the five year efficiency savings plan to maximise the opportunities for realising savings within the first three years and minimise the impact of the identified three year funding gap.
R2	Identify and secure savings in addition to those already recognised through the strategic change programme so that the predicted funding shortfall is met in full.
R3	Review the closing and audit facilitation process to ensure that delays and difficulties experienced in 2007/08 are not repeated in future years.
R4	Strengthen risk management arrangements with a particular focus on identifying and managing risks in relation to key partnerships.
R5	Build on arrangements for member development by encouraging further take up of the 360 degree approach and training on financial matters.

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Purpose, responsibilities and scope

- 7** This Annual Audit Letter (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 2008. Where relevant this work has included assessment of the arrangements in place in the Police Force, as well as the Authority.
- 8** I have addressed this letter to members 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.
- 9** This letter also communicates the significant issues to key external stakeholders, including members of the public. I will publish this letter on the Audit Commission website at www.audit-commission.gov.uk. In addition the Authority is planning to publish it on its website.
- 10** I have prepared this letter as required by the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from www.audit-commission.gov.uk.
- 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 (the Police Use of Resources scores).
- 12** We have listed the reports issued to the Authority relating to the 2007/08 audit at the end of this letter.

Audit of the accounts

- 13** I issued an unqualified opinion on the Authority's accounts on 30 September 2008.
- 14** In 2007/08 the audit of the accounts did not run as smoothly as it has done in previous years. Due to delays in the production of the draft accounts we were unable to start the audit on the date agreed with management. When the audit did start the absence of key finance staff often made it difficult to make progress and resulted in further slippage.
- 15** We identified the following issues during our audit:
- two operating leases had been incorrectly classified as finance leases resulting in a material misstatement of £2.7 million which management agreed to amend in the final version of the accounts;
 - a significant, although not material, amount of staff salaries (£692k) had been capitalised during the year which should have been charged to revenue. Management declined to amend the accounts in this respect; and
 - the accounting treatment for some of the financial instruments did not comply with the guidance set out in the Statement of Recommended Practice (SORP). However, management were able to demonstrate that the impact on the accounts was not material and no amendment was made in this respect.
- 16** Before giving my opinion I reported the issues highlighted above to the Audit Committee who agreed with management's decisions not to amend the accounts for the significant errors identified.

Whole of Government accounts

- 17** 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 Communities and Local Government and I am required, as your auditor, to undertake a range of procedures and report on the pack.
- 18** The whole of government accounts consolidation pack was provided for audit on 28 October 2008, which is three weeks after the submission deadline for auditor reports. Finance staff informed the Treasury of this delay and the audited consolidation pack was submitted on 25 November.
- 19** There were no significant issues identified as a result of our audit of the whole of government accounts consolidation pack.

Additional services

- 20** We did not carry out any additional services work at the Authority during 2007/08.

. Use of resources

21 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 on five specific themes. This is known as the Police Use of Resources Evaluation (PURE).

Value for Money conclusion

22 I concluded that the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources.

23 There were no significant issues identified through work carried out as part of our value for money conclusion.

Police Use of Resources scores

24 I assessed the Authority's arrangements on five themes and scored each theme from 1 to 4. Informal feedback on the findings supporting the assessment and highlighting areas for improvement has been provided to officers. A detailed report is planned for issue to the Authority in December.

Table 1 Police Use of Resources scores

Theme	2008 Assessment	2007 Assessment
Financial reporting	2 out of 4	3 out of 4
Financial management	3 out of 4	3 out of 4
Financial standing	3 out of 4	3 out of 4
Internal control	3 out of 4	2 out of 4
Value for money	4 out of 4	3 out of 4
Overall assessment of the Audit Commission	3 out of 4	3 out of 4

((1 = inadequate performance, 2 = adequate performance, 3 = performing well and 4 = performing strongly)).

- 25 The key issues arising from the audit, as reflected in the above judgements, are reported in the following sections.

Financial Reporting

- 26 The key findings from our audit of the financial statements have been highlighted in paragraphs 14 and 15 of this report. The volume and nature of amendments required in the financial statements presented for audit meant that the Authority did not pass key criteria at level three in the PURE assessment.
- 27 The Authority is unable to demonstrate that it produces summary financial information that meets the needs of a range of stakeholders. A consultation exercise was undertaken last year which sought the views of a cross section of local people with regard to the way that they would like to see financial information about Surrey Police presented. The outputs from this exercise have yet to result in any firm actions and at present the Authority do not produce summary financial statements or an annual report.

Financial Management

- 28 The Authority has a robust process for allocating revenue and capital resources in a transparent way and is able to demonstrate clear links between funding decisions and corporate priorities.
- 29 The Medium Term Financial Strategy sets out the Authority's plans in financial terms over a three year period; this provides the Authority with a solid framework for financial decision making. On an annual basis the 'Making it Count' approach to revenue resource allocation provides transparency about the reasons behind budgeting decisions and how these will help to achieve Surrey Police's wider aims. Similarly the 'gateway' process for approval of capital schemes focuses capital investment on priority areas.
- 30 The Authority could do more to ensure that members are provided with structured training and development in relation to financial management. During 2007/08, financial management training for non-finance managers and Authority members was introduced and provided. However attendance by members was variable and consideration should be given to ways of maximising member attendance at these training events. Financial management training for members should be considered as part of the wider discussions currently underway at the Authority regarding the best means of meeting the development needs of members.
- 31 The Authority has entered into a number of arrangements with local partners for sharing assets, thus providing the taxpayer with better value for money and increasing the opportunities for partnership working at a local level. Lease arrangements for office accommodation are already in place with Woking Borough Council and Reigate and Banstead Borough Council, similar arrangements due to be implemented in the 2008/09 financial year with other local partners.

Financial Standing

- 32 Historically Surrey Police has consistently met its key financial targets; and has a particularly strong track record in relation to the identification and achievement of

¹ The Authority's revenue budget setting process

. Use of resources

savings via its Efficiency Plans. The planned savings of £1.9m were delivered in 2007/08, although in part this was achieved through non recurring means, such as holding open vacancies during the year. This approach would not be sustainable for securing longer term savings.

- 33** In the medium term, Surrey Police faces significant financial challenges. Papers for the October Finance and Performance Panel predicted a £13.1 million funding gap over the next three years, and there remains the risk this funding gap could increase further. The Authority and the Force have been quick to recognise the financial pressures posed by the likely levels of grant funding from central government and the constraints on council tax revenues.
- 34** 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. This restructuring is now complete and should secure approximately £5 million in net savings over the next five years. Reviews of the Human Resources and Finance functions are currently underway and, when combined with the savings identified from the BCU restructuring, current forecasts predict total net savings of £12.3m by 2013. The successful implementation of the strategic change plan will be essential to the delivery of the local police plan.
- 35** The delay between securing savings through the strategic change programme over a five year period and the funding pressures which will be realised in the next three years will require the use of general fund reserves in the short term. The Government's decision to 'nominate' the Authority's budget following a six per cent council tax increase in 2008/09 will place constraints on the Authority's budget setting process in 2009/10 and as a consequence impact on the organisation's financial health.
- 36** The scale of the financial challenges facing the Authority should not be underestimated. 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.

Internal Control

- 37** Risk Management arrangements have been improved and further embedded during 2007/08. The Risk Management strategy and policies have been updated and the quality of reporting to members has improved. However arrangements to identify and manage the risks in relation to partnerships could be strengthened by making them more formal.
- 38** Arrangements to promote and ensure probity and propriety have also improved in 2007/08. As well as taking steps to encourage the appropriate use of the registers of gifts and hospitality, the Authority also plans to provide member training on ethical governance following requests from members themselves.
- 39** The recently introduced '360 degree' questionnaire for members includes questions on ethics which allow members to assess their understanding of the issues in this area.

This is a good example of how member development might be taken forward by the Authority. Unfortunately take up was not universal in 2007/08 with only 50 per cent of members making use of this process during the year. The Authority should take steps to improve the take up rate in this area.

Value for Money

- 40 Surrey Police achieve very good value for money. High performance is delivered across a range of key services while costs demonstrate best value when adjusted for local factors such as higher staffing and retention costs. The most recent HMIC Inspection awarded a total of only 19 'excellent' grades across all 43 forces in the country. Surrey was awarded five of these 19 grades. In addition to this, in the most recent Police Performance Assessment, Surrey was one of only 7 police forces to achieve an excellent grade category of resources and efficiency. This consistently high level of performance places Surrey among the top performing forces in the Country.
- 41 When compared to similar forces Surrey Police receives a very low level of grant funding from central government and has the lowest expenditure per Band D property of any force in England and Wales. The high level of performance from a relatively low level of funding demonstrates excellent value for money to the taxpayer
- 42 There is a strong understanding of performance outcomes and comparative costs and decisions regarding the allocation of resources and are supported by solid data quality arrangements. Surrey Police are able to demonstrate a solid track record of managing costs whilst maintaining a focus on the quality of services and responding to local needs. Maintaining this focus on costs and the quality of outputs will be essential to successfully meeting the financial challenges facing the Authority in the medium term.
- 43 The Authority and Force have identified the issues that have an impact on the ability to fund policing priorities and this is providing the focus for its efficiency programmes and an ongoing examination of how it will fund services in the future.

National Fraud Initiative

- 44 The National Fraud Initiative is a data matching exercise that compares sets of data to identify inconsistencies or other circumstances that might indicate fraud or error. It also helps auditors to assess the arrangements that audited bodies have put in place to deal with fraud.
- 45 There were relatively few data matches identified for Surrey Police as part of the National Fraud Initiative. All variances were followed up by the Force's finance team but no actions were required.

Specific risk-based work

- 46 We did not carry out any pieces of specific risk-based work during the year.

Closing remarks

- 47 We have agreed this letter with the Chief Executive, the Treasurer and the Director of Finance. We will present the letter at the Audit Committee on 15 December 2008 and we will provide copies to all Authority members.
- 48 Further detailed findings, conclusions and recommendations on the areas covered by audit work are included in the reports issued to the Authority during the year.

Table 2 Reports issued

Report	Date of issue
Audit plan	March 2007
Report to those charged with governance	November 2008
Opinion on financial statements	September 2008
Value for money conclusion	September 2008
Use of resources	planned for December 2008
Annual audit letter	November 2008

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- 49 The Authority and Force has taken a positive and constructive approach to our audit. I would like to take this opportunity to thank officers for their support and cooperation during the audit.

Paul Grady
District Auditor
November 2008