

Annual Audit Letter

November 2005



# Annual Audit Letter

**Surrey Police Authority**

**Audit 2004/2005**

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## Key messages

### Police structure review

- 1 Following HMIC's report recommending that larger and more strategic police forces should be established, police authorities and forces in England and Wales are taking part in a review of police structures. The Home Secretary has set out the factors to be considered in this review and has set out a challenging timetable for its completion. Inevitably, this will give rise to uncertainty, particularly for authorities such as Surrey Police that fall below the HMIC indicative figure of 4,000 officers or 6,000 staff.
- 2 In times of change, robust financial governance and effective performance management are particularly important. It is also important that your risk management process should take account of the review to ensure that the need to continue to plan for, deliver and improve services is balanced with the risk of fettering any future successor organisation. Our Annual Audit Letter should be read in this context.

### Performance

- 3 Our review of management arrangements found that the Authority has a sound base to secure value for money. We are currently working with finance and performance staff to consider the extent to which these arrangements are operating effectively. Surrey exceeded its £3.2 million efficiency plan target by £1.1 million. Surrey Police have received a positive assessment from HMIC's baseline review published on 27 October 2005.

### Financial governance

- 4 Our audit of the financial statements is complete and we gave an unqualified opinion on 31 October 2005. In accordance with our professional duties we reported two technical issues to the Police Authority that we consider should be addressed for 2005/06.
- 5 The level of general reserve needs to be kept under review to ensure that it accords with the Authority's financial strategy and assessed level of risk.
- 6 The Authority has appropriate arrangements in place for:
  - financial standing;
  - internal financial control;
  - standards of financial conduct and the prevention and detection of fraud and corruption; and
  - ensuring the legality of transactions.

## Performance

Our review of management arrangements found that the Authority has a sound base to secure value for money. We are currently working with finance and performance staff to consider the extent to which these arrangements are operating effectively. Surrey exceeded its £3.2 million efficiency plan target by £1.1 million. Surrey Police have received a positive assessment from HMIC's baseline review published on 27 October 2005.

### Review of arrangements to secure value for money

- 7 In anticipation of changes in our new Code of Audit Practice, we are currently reviewing the overall arrangements in place for the Authority to secure value for money, including financial management.
- 8 Our work to date has identified a sound base for the Authority's overall arrangements, including:
  - processes in place for setting strategic direction;
  - wide consultation through panels and workshops to determine priorities;
  - processes in place to monitor performance including monthly reports to senior managers and quarterly reports to the performance panel; and
  - the building blocks for a strategic approach to financial management.
- 9 We are discussing our findings with the Authority and Force. A key feature of our further work will be to work with finance and performance staff to consider the extent to which these arrangements are operating effectively. This includes gaining a better understanding of:
  - whether new processes such as those for risk management and setting strategic direction are fully embedded;
  - how communication with stakeholders impacts on setting priorities;
  - the performance monitoring arrangements of partnerships such as Crime Disorder Reduction Partnerships (CDRPs); and
  - how performance monitoring is used to take corrective action.

### Local policing plan

- 10 We reviewed and reported on the 2004/05 local policing plan in October 2004. We concluded that the plan complied with statutory guidance. We also identified opportunities to improve the plan for 2005/06. We are currently reviewing the plan for 2005/06.

## Efficiency plan

- 11 Under the Government's comprehensive spending review, police forces and authorities are annually required to deliver year-on-year efficiency gains (at 2 per cent of net revenue expenditure for 2004/05). In determining whether this target has been achieved, HMIC takes into account both cashable and non-cashable initiatives.
- 12 As in previous years, HMIC has requested that Audit Commission appointed auditors provide them with an independent assessment of the cashable gains claimed by the Authority. We reported our findings to HMIC in May 2005. Surrey exceeded its £3.2 million target by £1.1 million and has chosen to carry forward the excess savings into 2005/06.
- 13 This process for 2005/06 has now changed and we will no longer be requested to provide an independent assessment of cashable gains.

## HMIC baseline assessment

- 14 We have agreed locally with HMIC that we will reflect the results and conclusions from their 2005 baseline assessment in this letter. The review resulted in a positive assessment for the Force.

**Table 1 Baseline assessment – summary of judgements (2005)**

Summary of judgements	Grade	Direction of travel
<b>1 Citizen Focus</b>		
1A Fairness and Equality	Fair	
1B Neighbourhood Policing and Community Engagement	Excellent	Improved
1C Customer Service and Accessibility	Good	Improved
1D Professional Standards		
<b>2 Reducing Crime</b>		
2A Reducing Hate Crime and Crimes against Vulnerable Victims	Good	Stable
2B Volume Crime Reduction	Excellent	Stable
2C Working with Partners to Reduce Crime	Excellent	Stable

Summary of judgements	Grade	Direction of travel
<b>3 Investigating Crime</b>		
3A Investigating Major and Serious Crime	Good	
3B Tackling Level 2 Criminality	Good	
3C Investigating Hate Crime and Crimes against Vulnerable Victims	Fair	Deteriorated
3D Volume Crime Investigation	Fair	Improved
3E Forensic Management	Good	Stable
3F Criminal Justice Processes	Good	Stable
<b>4 Promoting Safety</b>		
4A Reassurance	Excellent	Stable
4B Reducing Anti-Social Behaviour and Promoting Public Safety	Good	Improved
<b>5 Providing Assistance</b>		
5A Call Management	Good	Improved
5B Providing Specialist Operational Support	Good	Improved
5C Roads Policing	Good	Stable
<b>6 Resource Use</b>		
6A Human Resource Management	Excellent	Improved
6B Training and Development	Good	Improving
6C Race and Diversity	Good	
6D Resource Management	Good	Stable
6E Science and Technology Management	Good	Improved
6F National Intelligence Model	Good	Stable
<b>7 Leadership and Direction</b>		
7A Leadership	Good	
7B Strategic Management	Excellent	Stable
7C Performance Management and Continuous Improvement	Good	Improved

Source: HMIC baseline assessment, October 2005

## Significant conclusions from the 2005 baseline

- 15 In recent years, the Force has faced an unusual combination of challenges, including issues such as funding and the recruitment and retention of officers. The latter issue due largely to the relatively high cost of living locally and to the proximity of the Metropolitan Police. This has been largely resolved through a range of innovative recruitment and retention measures developed under one of the Force' four current priorities 'to keep and attract the best quality staff'. The measures have helped to stem the outflow of officers to other forces and there are signs of an increasing number of officers wishing to transfer to the Force.
- 16 Given the small size of the Force, the significant turnover of staff has resulted in a loss of corporate experience and the need to train and supervise a new and relatively inexperienced workforce. The force has also experienced some serious disciplinary cases, which attracted adverse publicity during 2004/05. The Chief Constable has however seized the opportunity proactively to address these and other lower-level disciplinary issues by setting out the Surrey Police Standard. He did this through interactive roadshows led by him and members of his command team. These have proved to be impactful and, hopefully, a positive watershed in the history of Surrey Police. This work, along with other measures to improve the quality of service provided to those who live in, work in and visit the county, has resulted in significant improvements in public confidence, reflected in both local surveys and in British Crime Survey (BCS) data.
- 17 The major review which commenced in 2002, a programme known as Staying Ahead, has continued to be refined and has evolved with the developing Police Reform Agenda into its third version. The force and the police authority have worked together through difficult and challenging times to develop a service which fits the Neighbourhood Policing Agenda. Through the mixed economy of policing, Surrey Police remains at the forefront of civilianisation, with the aim of making best use of resources. The drive is to provide increased quality of service with improved demand management and the effective use of a range of dedicated response teams, neighbourhood specialist officers (NSOs), civilian employees and wardens and local policing teams, working in partnership with their communities to tackle crime and disorder.
- 18 In the context of some difficult funding settlements, Surrey Police has had to contend with some major investigations and issues which have held the force in the spotlight of media and public attention. These investigations have proved resource-intensive and have at times stretched the force. However, many of these investigations have been brought to successful conclusions, with evidence of good family liaison and a significant emphasis on the proper care of victims, witnesses and their families. Through skilful media management, these positive news stories have been widely circulated to reassure communities in the county.

## Review of crime data quality

- 19 Our work on crime data quality last year identified many improvements since the baseline assessment in 2003. The Authority was rated 'amber' but we noted that it was well placed to achieve a green rating in 2005/06.
- 20 For 2005/06, we will review your progress with crime data recording and the arrangements that you have in place to secure data quality. The detailed work that will be undertaken in this (year 3) audit has been agreed nationally by the Audit Commission and the Police Standards Unit. The audit will take a proportionate risk-based approach based on the year 2 results, the following table shows the impact for differently rated forces.
- 21 For Surrey this means we will review your progress with the action plans that were prepared during the year 1 and 2 audits, and we will focus our management arrangements work on the improvement areas that were identified as part of these plans. For crime data quality we will review data under investigations 1 and 9.

**Table 2 Audit approach - Year three**

The agreed audit approach for year three crime data quality

	Overall results in year 2		
	Green Force	Amber Force	Red Force
Follow-up of Year 1 and Year 2 action plans	√	√	√
Management arrangements	Proportionate review, focussing on areas for improvement identified in previous reviews.		
Data testing:			
Investigation 1	Force level only	Force level + sample BCUs	All BCUs
Investigation 9	√	√	√

*Audit Commission and PSU*

- 22 We have met with the Force and the Authority to discuss the data testing and management arrangements work, in order to outline the approach that we will be taking and to agree how the data samples will be selected.
- 23 Subject to the selection of a valid data sample, the crime data quality audit will be completed during the period of November 2005 and March 2006. The findings from our year three audit will be reported in April 2006, following the completion of national consistency reviews.

## Activity-based costing

- 24 All Forces have been required to implement activity-based costing (ABC) since 1 April 2003, although 2004/05 was the first year when ABC had to be fully implemented. Our work on ABC last year identified weaknesses in both the accuracy of data submitted to the Home Office for 2003/04 and in the underlying systems and processes. The Authority put in place an action plan to secure improvements for 2004/05 data.
- 25 Our work in relation to ABC is scheduled to be completed during November 2005 to 31 March 2006, and will be aligned and integrated with the crime data quality audit that is to be completed during the same timeframe.
- 26 There will be a tiered proportionate approach to the ABC audit, with the specific components of the audit being based on the judgement given last year. This means we will undertake a focused review your utilisation of ABC data and more detailed reviews of your ABC costing model and management arrangements.
- 27 The key elements of the audit will include:
- follow-up of the action plan that was agreed last year;
  - consideration of the accuracy of the Force's costing model;
  - sample testing of activity information sources;
  - review of the Force's internal controls for managing activity sampling;
  - a high level review of the results of the ABC analysis; and
  - consideration of the utilisation of ABC data.
- 28 We have made arrangements to meet with key staff in order to outline our approach to the audit and the potential advantages of carrying out elements of this work at the same time as the crime data quality work. For example joint 'focus groups'. The findings from the review will be reported to the Authority in late April 2006, following the completion national consistency reviews.

## Accounts and governance

Our audit of the financial statements is complete and we issued an unqualified opinion on 31 October 2005. In accordance with our professional duties, we reported two technical issues to the Police Authority that we consider should be addressed for 2005/06 but do not affect our audit opinion for this year.

The Authority has appropriate arrangements in place in respect of financial standing, internal financial control, standards of financial conduct and the prevention and detection of fraud and corruption, and for ensuring the legality of transactions.

### Audit of 2004/05 accounts

- 29 Our accounts audit is complete and we gave an unqualified audit opinion on 31 October 2005.
- 30 As part of our audit of the accounts, we reviewed and placed reliance on the Authority's arrangements for ensuring the integrity of the main accounting system, budgetary control and the year-end closedown procedures. This enabled us to focus our year-end testing of the draft financial statements on those areas of highest risk. During 2005/06 we will work closely with finance staff to continue to improve the efficiency of the audit process.
- 31 Professional auditing standards require auditors to report certain matters arising from the audit of the financial statements to 'those charged with governance'. For Surrey Police, 'those charged with governance' is the Police Authority. Our audit identified two issues where the accounts do not follow recommended practice. These were reported to the Authority on 3 October 2005 and summarised below.
  - Where a capital grant is used to purchase a specific fixed asset, the capital grant should be used each year to offset the depreciation charge for that asset. The Authority does not match capital grants to specific fixed assets and so is not able to calculate the entries required to follow this aspect of the SoRP. Instead capital grants are credited to reserves each year in full. There is no net effect on the balance sheet or the consolidated revenue account but both operating expenditure and the capital grants reserve are misstated.
  - Material fixed assets should be professionally revalued at least once every five years. Although the Authority calculates and applies an inflation index to its housing portfolio based on the value of houses it has sold, these assets have not been professionally revalued for ten years.
- 32 It has been agreed that these issues will be considered for 2005/06.
- 33 We also identified a potential technical issue in respect of the actuarial calculation of pension costs for employees admitted to the Surrey County Council Pension Scheme. There is no overall effect on the Authority's revenue account and this issue did not affect our audit opinion. This is a national issue affecting other police and local authorities and will need to be resolved for 2005/06.

- 34 Members approved the Authority's financial statements on 25 July 2005, ahead of the statutory deadline of 31 July 2005. As part of the whole of government accounts agenda (and as required by the Accounts and Audit Regulations 2003) the deadline for the production and approval of the accounts next year will be one month earlier (30 June 2006). We understand that the Authority has already starting planning for the earlier closedown.

## Financial standing

- 35 The Authority has a track record of delivering against the annual budget and has appropriate arrangements in place to ensure that its financial standing is soundly-based. These include:
- zero-based budgeting review carried out over a four-year period;
  - regular budget monitoring of both revenue and capital by the Finance Panel; and
  - monthly budget monitoring supported by action plans to address variances.

### 2004/05 financial position

- 36 Overall revenue reserves have increased during the year while reserves available to fund capital spending have reduced (table 1).
- 37 The Authority underspent by £2.1 million against its £164.1 million revenue budget and after transfers to/from earmarked reserves, transferred £2.2 million to general reserves. The underspend was achieved though reduced overtime costs and because of vacancies in some specialist posts. At £10.3 million the general reserve level represents 7.5 per cent of the Authority's budget and is supported by earmarked reserves of £9.4 million. The Authority plans to use £0.9 million of its general reserve to support the 2005/06 budget.
- 38 Capital expenditure incurred during the year was £12.1 million compared to planned spending of £16.3 million. This underspend was due to delays in some of the major schemes, most notably in relation to police housing. The Authority funded its capital spending largely from capital grants from the Home Office and its capital reserves which were reduced by £3.1 million to £9.4 million. The Authority has no external borrowing.

### Table 3 Level of reserves

Revenue reserves increased during the year while reserves available to fund capital spending have reduced

Reserve	2003/04 £m	2004/05 £m
General balances	8.1	10.3
Earmarked reserves	8.0	9.4
Capital reserves	12.5	9.4
Total available reserves	28.6	29.1

Source: financial statements for the year ended 31 March 2005

- 39 Pension costs continue to be a key financial pressure on police authorities nationally and the position at Surrey Police Authority is no different. The net pension liability at 31 March 2005 stood at £623 million (£613 million at 31 March 2004). The financial pressure placed on police authorities by the unfunded pension scheme for uniformed officers is recognised nationally. Following a Home Office review, a revised police pensions scheme for new starters will be introduced from 1 April 2006. Following the implementation of the new scheme, the Authority will need to review the impact on the level of reserves that will be required for pension costs.
- 40 The level of general reserve is higher than many other authorities and needs to be kept under review to ensure that it accords with the Authority's financial strategy and assessed risks.

## Systems of internal financial control

- 41 We have not identified any significant weaknesses in the overall control framework:
- Internal Audit provides an effective service and we have relied on Internal Audit work where appropriate;
  - the Authority has good arrangements in place to develop its statement on internal control which was published alongside the financial statements; and
  - the Authority and Force are implementing a risk management strategy and have developed a risk register.
- 42 As part of a wider review of the Authority's arrangements for securing value for money, we are currently reviewing the extent to which risk management has become embedded in the financial and performance management of the Authority.

## **Standards of financial conduct and the prevention and detection of fraud and corruption**

- 43 We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption.
- 44 During the year, the Authority took part in the Audit Commission's National Fraud Initiative (NFI 2004/05). The NFI, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector. These include payroll and housing benefit fraud, with the details of housing benefit fraudsters being passed back to the employing body to allow them to consider the implications and take action as appropriate. Where little or no such fraud is identified then the Authority can gain assurance about internal arrangements for preventing and detecting fraud.

## **Legality of transactions**

- 45 We have not identified any significant weaknesses in the framework established by the Authority for ensuring the legality of its significant financial transactions. In particular, the Authority has implemented processes to deal with Freedom of Information Act requests.

## Other work

### Grant claims

- 46 The Home Office have recently confirmed that they have removed the requirement for audit certification for police grants for 2004/05 and beyond.
- 47 This follows a review of arrangements to obtain adequate assurance about grant monies in accordance with a request from HM Treasury. The key principle from the HM Treasury request is that the audit for grants should be carried out in a way proportionate to the amounts involved and the associated risks. Recipients will need to account for their claims but further certification through formal audit is not always necessary.
- 48 The Home Office have concluded that taking all factors into account they are content to proceed from and including 2004/05 on the basis of annual assurance from the Chief Financial Officer and the Chief Constable.

## Looking forwards

### Future audit work

- 49 We have an agreed plan for 2005/06 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2005/06 accounts and the delivery of the police data quality audit, will be reported in next year's Annual Letter.
- 50 We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the Authority. We will continue with this approach when planning our programme of work for 2006/07. We will continue to develop our relationship with HMIC to ensure a co-ordinated approach to regulation.

### Revision to the Code of Audit Practice

- 51 The statutory requirements governing our audit work are contained in:
  - the Audit Commission Act 1998; and
  - the Code of Audit Practice (the Code).
- 52 The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan which was agreed with the Finance Panel on 28 April 2005. The key changes include:
  - the requirement to draw a positive conclusion regarding the Authority's arrangements for ensuring value for money in its use of resources; and
  - a clearer focus on overall financial and performance management arrangements.

### Working with HMIC

- 53 HMIC currently undertakes a baseline assessment of every police force. The methodology is similar to that of the Comprehensive Performance Assessment (CPA) for local authorities and it includes an assessment of financial management and financial standing.
- 54 In the past, this assessment has been undertaken by a member of HMIC staff. To reduce potential for overlaps and secure greater consistency in reporting it is proposed that in future the Audit Commission would develop and produce a Use of Resources judgement for all police forces and that HMIC would rely on this judgement and incorporate it into the baseline assessment.
- 55 Negotiations are at an early stage but we would aim to have the new arrangements in place for the 2006/07 audits which would mean that a Use of Resources judgement would be given in July/August 2006 to feed into the HMIC baseline assessment reports which are published each October.

## Closing remarks

- 56 This letter has been discussed and agreed with officers from both the force and authority. A copy of the letter was also discussed at the Finance Panel on 11 November 2005.
- 57 The Authority and the Force have taken a positive and constructive approach to our audit and I would like to take this opportunity to express my appreciation for the assistance and co-operation we have received.

## Availability of this letter

- 58 This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk) and also on the Authority's website.

Peter Arkell  
District Auditor  
14 November 2005

# Appendix 1 – Background to this letter

## The purpose of this letter

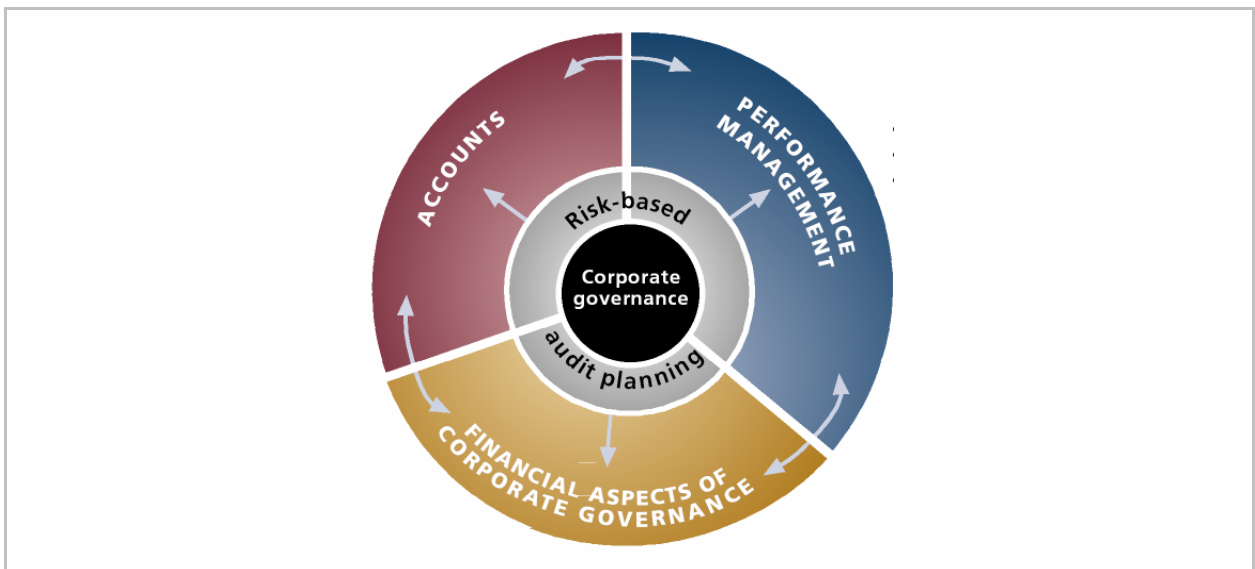
- 59 This Annual Audit Letter summarises the conclusions and significant issues arising from our recent audit of the Authority.
- 60 We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 2 for information.
- 61 The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.
- 62 Appendix 3 provides information about the fee charged for our audit.

## Audit objectives

- 63 Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on the significant risks that are relevant to our audit responsibilities.

**Figure 1 Code of Audit Practice**

Code of practice responsibilities



- 64 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as shown below.

### **Accounts**

- Opinion.

### **Financial aspects of corporate governance**

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct and the prevention and detection of fraud and corruption.
- Legality of transactions.

### **Performance management**

- Use of resources.
- Performance information.
- Best value performance plan.

## Appendix 2 – Audit reports issued

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**Table 4**

<b>Report title</b>	<b>Date issued</b>
Audit Plan	May 2004
Review of Local Policing Plan	October 2004
Activity-Based Costing	November 2004
Data Quality	November 2004
Report on the 2004/05 Financial Statements to Those Charged with Governance (SAS 610)	October 2005

## Appendix 3 – Audit fee

**Table 5      Audit fee update**

<b>Audit area</b>	<b>Plan 2004/05</b>	<b>Actual 2004/05</b>
Accounts	£20,000	£20,000
Financial aspects of corporate governance	£17,000	£17,000
Performance	£33,000	£33,000
<b>Total fee</b>	<b>£70,000</b>	<b>£70,000</b>