

**To: Surrey Police Authority**

**Date: 6<sup>th</sup> February 2012**

**By: Ian Perkin, Treasurer**

**Title: Annual Audit Letter**

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**Purpose of Report/Issue:**

To present the 2010/11 Annual Audit Letter to members, which indicates that the Audit Commission issued an unqualified opinion on both the Authority's Financial Statements and on its arrangements for ensuring Value For Money. The Annual Audit Letter pulls together the key messages from external audit work in 2010/11. The letter has been published on the Audit Commission's website and was considered by the Audit Committee at its December meeting.

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**Recommendations**

The Authority is asked to note the Annual Audit Letter.

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# Annual Audit Letter

Surrey Police Authority

Audit 2010/11



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**Traffic light explanation**

Red  Amber  Green 

# Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- the audit of your financial statements; and
- my assessment of your arrangements to achieve value for money in your use of resources.

I have included only significant recommendations in this report. The Authority has accepted these recommendations.

Key audit risk	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

## Audit opinion and financial statements

I issued an unqualified opinion on your financial statements on 30 September 2011.

2010/11 was the first year in which local government and police bodies prepared their accounts under International Financial Reporting Standards (IFRS). This required major changes to the presentation of accounts. You managed the transition to IFRS well and achieved good overall compliance with CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom.

Staff departures in finance during the closedown and audit process were well managed and had minimal impact on the closedown and audit process as a whole.

Material adjustments were made to the financial statements as a result of the audit. However, these adjustments did not change the overall financial position reported in the draft accounts and were not indicative of underlying weaknesses in the financial reporting process.

## Value for money

I issued an unqualified conclusion on your arrangements for securing value for money on 30 September 2011.

You continue to manage your finances effectively and in 2010/11 delivered a balanced budget, achieving £10m of savings and maintaining balances which are in line with those anticipated by your medium term financial plans.

Whilst managing the financial challenges in 2010/11 you were able to maintain high levels of overall service. In addition you started your investment in future service priorities by increasing the overall numbers of police officers employed by the Force.

Your ambitious Operational Policing Review is well advanced and is beginning to deliver savings that should enable you to meet the funding gap identified in your medium term financial plans.

# Current and future challenges

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2010/11 has been a year of significant change for you. During the year the Force successfully moved from an operational structure based on geographical command units to a single command unit organised around policing functions. The Force has also reduced senior officer numbers by 50 per cent and started to increase the numbers of frontline police constables. Despite the organisational upheaval necessarily resulting from these changes the Force was able to meet all but one of the nine targets set by the Authority in the Local Policing Plan and has maintained Surrey's status as a county with low overall levels of crime and high levels of public confidence and satisfaction in the Police.

In September 2010 the Authority was assessed as 'performing well' in a joint inspection carried out by the Audit Commission and HMIC, one of only 7 out of the 22 authorities inspected to receive a score of '3' overall. It continues to operate effectively in holding the Force to account, working to ensure the expectations of local people are met. During the year the Authority consulted the public on a number of important changes to the shape of policing in Surrey and these have been reflected in the new Local Policing Plan for the period 2011 to 2014.

To date you and the Force have been very successful in working together to meet your shared goal of putting the Surrey Public First. However there are significant challenges which you face in the months and years to come. The Police Reform and Social Responsibility Act 2011 Act received Royal Assent on 15 September 2011. The Act will lead to the replacement of the existing tripartite relationship between the Home Office, Police Authority and the Force. The new arrangements will fundamentally change the relationships in place. The Police Authority will cease to exist, to be replaced by directly elected Police and Crime Commissioners (PCCs), and the Chief Constable will be established as separate legal and accounting entity. At the same time there are significant changes in the roles and responsibilities of the PCC and the Force compared to the current arrangements.

The Olympics and Paralympics will represent a unique and significant operational challenge for you and the Force. There are a number of venues and events situated in the County which will need to be policed and the expected significant influx of visitors may also increase opportunities for crime and the threat of terrorism. These factors will see an increase in demands on your resources both prior to and during the games. These will need to be managed at the same time as you look to appoint a new Chief Constable, who will bring with him his own vision, leadership and direction for Surrey Police on appointment.

Against this background I set out below some of the key challenges which, in my view, you face over the coming year as well as the actions you are taking, or need to take, to meet these challenges.

Economic downturn and pressure on the public sector

The national deficit and continuing fragility in the UK and global economies are having a significant impact on public sector funding in the UK. The Comprehensive Spending Review (CSR) sets out significant planned reductions in funding for local government which impact on the way services are delivered.

As part of the finance settlement you have seen a reduction in grant funding from the government of 4.8 per cent in 2011/12, with a further reduction of 6.7 per cent in 2012/13.

These reduced levels of funding, other cost pressures and the commitment to invest in recruiting an additional 200 frontline officers are all significant financial challenges. To address these, your budget for 2011/12 requires planned savings of £13.2m, with further savings required in future years. For the remaining four-year period (2012-2016) of your current medium term financial plan (MTFP), you and the Force have identified further savings of £11.3m but even taking these savings in to account a budget gap of £6.8m remains up to 2016.

You and the Force have a strong track record of working together to generate the efficiencies and savings required to meet financial challenges. A good example is your Operational Policing Review (OPR) which has reduced management costs and increased investment in frontline service posts. You have used this review to rationalise your estate by co-locating police staff with local partners and closing those stations which are not well used by the public. This aims to reduce costs but more importantly to improve access to police in Surrey. Progress against OPR is good to date and many of the planned savings have already been achieved.

In my view you continue to take the steps needed to meet the challenges to your financial stability over the coming years and to ensure you can continue to meet the expectations of residents. I will continue to review my assessment during the forthcoming 2011/12 audit.

Collaboration and joint services

The amount of collaboration with other forces has noticeably increased in the last year. The Force now has seven collaboration arrangements in place with the 4 forces across the South East as well as several other partnership arrangements with Sussex Police.

You recently approved up to £1m of funding to explore the feasibility of partnering with a private sector organisation to improve service delivery and make savings in non-frontline service areas. This process is being run in conjunction with the Home Office and West Midlands Police. You anticipate this innovative approach may deliver savings and efficiencies that will help to address the medium term funding gap. The process could generate interest from a number of parties but may also cause some controversy, especially as any proposal to proceed with business partnering may not be made until after the PCC is elected. There is a risk a newly elected PCC may decide to abandon the initiative, which could result this feasibility expenditure not generating the anticipated savings.

The challenge and risks associated with this are understood and acknowledged by both you and the Force. In particular there is a commitment in place that other options will still be considered throughout the feasibility stage. You will need to continue to communicate effectively with each other and stakeholders so that the messages associated with this process are properly understood by all involved.

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#### Preparation for PCCs

The first election of a PCC will take place in November 2012, with the successful candidate taking up office for a four-year period on 22 November 2012. Although this is six months later than the government originally planned it is still a challenging timescale for you and the Force to prepare for the transition to the new arrangements. During the transition you will need to maintain your current high levels of performance and satisfaction during a period of uncertainty for both you and the Force. At the same time you will need to ensure the governance and accounting risks associated with the transition, are proactively identified and managed.

You are taking steps to plan for and shape the impact of these changes on policing in a local and national context. There are constructive and sound relationships in place between you and the Force and you can draw on a track record of successful innovation, sound governance, high performance and a strong value for money culture to meet these challenges.

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# Financial statements and annual governance statement

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**Your financial statements and annual governance statement are an important means by which you account for your stewardship of public funds.**

## **Overall conclusion from the audit**

I issued an unqualified audit opinion on your financial statements on 30 September 2011.

In 2010/11 police authority financial statements were produced under International Reporting Standards (IFRS) for the first time. Restating the accounts to comply with the requirements of IFRS was a complex task. My audit identified good overall compliance with CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom.

My audit identified two material and a number of non-material misstatements in the financial statements this year. None of these changed your reported financial position. Management agreed the required material adjustments and the Audit Committee approved the financial statements on behalf of the Authority on 26 September 2011.

During my audit I identified scope for improvement in your arrangements to identify and report related party transactions and the archiving of financial information and raised some concerns about the evidence retained to prove legal ownership of some properties. I also suggested that you build on the first year of reporting under IFRS and in particular look at how the format and presentation of the financial statements may be improved in 2011/12. Officers accepted all the recommendations I made in my Annual Governance Report.

## **Significant weaknesses in internal control**

I reviewed your Annual Governance Statement and concluded that it accords with proper practice and the disclosures made were consistent with my understanding of the Authority.

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

## Recommendation

- R1** The Authority monitors the implementation of recommendations made in my Annual Governance Report on aspects of external financial reporting in relation to:
- improving procedures for obtaining and reviewing related party transaction disclosures;
  - ensuring financial information is retained and available up until the completion of the annual audit; and
  - reviewing the legal status of those properties where information could not be provided to demonstrate legal ownership during the audit and where necessary ensuring that evidence is obtained to demonstrate legal ownership in the future.
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# Value for money

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**I considered whether you are managing and using your money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.**

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that you have adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

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## Value for money criteria and key messages

Criterion	Key messages
<p><b>1. Financial resilience</b></p> <p><b>The organisation has proper arrangements in place to secure financial resilience.</b></p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>In my view you have adequate arrangements to secure financial resilience. In particular you have:</p> <ul style="list-style-type: none"><li>■ a track record of strong financial management which was maintained in 2010/11 with over £10m of savings having been secured;</li><li>■ a clear understanding of the scale of the financial challenges you face and plans in place to meet these challenges;</li><li>■ taken account of changes to funding from central government by re-visiting your medium term financial plans and using scenario planning to identify and manage the associated financial risks; and</li><li>■ embarked on a series of strategic change programmes which aim to secure the financial health of the Authority and Force over the medium term whilst continuing to invest in key service priorities.</li></ul>

## Criterion

### **2. Securing economy efficiency and effectiveness**

**The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.**

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key messages

In my view you have adequate arrangements for challenging how you secure economy efficiency and effectiveness. In particular you:

- have secured your planned level of efficiency savings in 2010/11 by taking ambitious steps via your Operational Policing Review such as:
  - moving to a single local policing area;
  - reducing the number of senior managers within the force;
  - streamlining back office functions; and
  - reducing costs by sharing accommodation with other local bodies and disposing parts of your estate which are no longer fit for purpose;
- continue to secure low levels of overall crime and achieve high levels of public satisfaction; and
- have feasible plans in place to address your medium term funding gap whilst at the same time planning to increase the number of police constables over the medium term.

# Closing remarks

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I have discussed and agreed this letter with the Chief Executive, Treasurer and the Head of Finance. I will present this letter at the Audit Committee on 12 December 2011 and will provide copies to all members.

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.

Report	Date issued
Annual Fee Plan	April 2010
Opinion Audit Plan	June 2011
Annual Governance Report	September 2011
Audit opinion on the financial statements and value for money conclusion	September 2011
Annual Audit Letter	November 2011

The Authority has taken a positive and constructive approach to our audit. I wish to thank the Authority staff for their support and co-operation during the audit.

**Paul Grady**  
**District Auditor**  
**November 2011**

# Appendix 1 – Fees

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	Actual	Proposed	Variance
Scale fee	£102,000*	£102,000	£0
Non-audit work	£0	£0	£0
<b>Total</b>	<b>£102,000</b>	<b>£102,000</b>	<b>£0</b>

\* The Audit Commission rebated £5,800 to you in November 2010, representing the one-off cost of audit work on International Financial Reporting Standards. The Commission subsequently made an additional rebate of £1,500. The net amount you have paid in respect of the audit for 2010/11 is therefore £94,700

# Appendix 2 – Action Plan

## Recommendations

### Recommendation 1

The Authority monitors the implementation of recommendations made in my Annual Governance Report on aspects of external financial reporting in relation to:

- improving procedures for obtaining and reviewing related party transaction disclosures;
- ensuring financial information is retained and available up until the completion of the annual audit; and
- reviewing the legal status of those properties where information could not be provided to demonstrate legal ownership during the audit and where necessary ensuring that evidence is obtained to demonstrate legal ownership in the future.

<b>Responsibility</b>	Financial Accounting Manager
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<b>Priority</b>	Medium
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<b>Date</b>	31 December 2011
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<b>Comments</b>	<p>The finance team have reviewed the process for obtaining evidence to identify and support related party transactions. Revised procedures will be introduced during 2011/12.</p> <p>The file which was missing at the time of audit has subsequently been located. All relevant financial information will be retained and will be available for review at audit.</p> <p>The legal status of all properties will be reviewed and confirmed as part of work currently in progress to support the planned transfer of assets to the PCC. This work will include obtaining and updating records currently held by the Land Registry.</p>
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# Appendix 3 – Glossary

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## **Annual governance statement**

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Authority on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

## **Audit opinion**

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

## **Opinion**

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

## **Value for money conclusion**

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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