

Annual Audit Letter

Norfolk Police Authority

Audit 2008/09

November 2009



Contents

Key messages	3
Financial statements and annual governance statement	6
Value for money conclusion and use of resources	8
Closing remarks	12
Appendix 1 – Value for money conclusion	13
Appendix 2 – Action plan	15

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.
-

Key messages

This report summarises the findings from my 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 my opinion on the 2008/09 financial statements on 30 September 2009. My opinion was 'unqualified' meaning that I agreed that the financial statements presented fairly the financial position of the Authority.
-

Financial statements

- 2 My Annual Governance Report, issued on 24 September 2009, reported five non-material errors within the financial statements, for which Authority Members agreed to amend. The errors did not impact on the financial position of the Authority. However, my report included two recommendations in respect of improving accounting arrangements, which the Authority is implementing.
 - 3 My triennial review of Internal Audit concluded that the service provided by Norfolk Audit Services complies with the Code of Practice for Internal Audit in Local Government.
 - 4 The Authority will need to prepare its 2010/11 financial statements under International Financial Reporting Standards (IFRS). This is a significant change in financial reporting and Authority Members need to monitor progress to ensure that the financial statements are produced in line with the new requirements.
-

Value for money and use of resources

- 5 I issued an unqualified value for money conclusion on 30 September 2009, stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources. Overall, Norfolk Police Authority and Force scored at level 3 in its use of resources, which equates to performing well. My audit identified areas for improvement, which were reported in the Annual Governance Report to Authority Members. The summary judgements to support the use of resources assessment are provided in Appendix 1.
 - 6 Financial reporting within the Authority continues to highlight significant budgetary pressures for 2009/13, with the Force working on a savings target of £15m over the period to 2012/13. Members will need to ensure that plans devised are sufficiently robust to deliver the required savings.
-

- 7 The Authority reviewed its treasury management activities promptly in response to the economic downturn and has taken account of the impact of the economic downturn in its medium term financial strategy for 2009/10 - 2012/13. However, Members should remain vigilant as to economic conditions and the potential impact for the Authority.
- 8 Norfolk's Organisational Development Review has seen the development of the Norfolk Policing Model, leading to the re-structuring of the Force. Members should monitor the benefits and efficiencies arising from the Review, including addressing the issues raised within the HMIC report on 'Delivering the Policing Pledge', which awarded the Force a 'Fair' rating.
- 9 The Authority continues to progress collaborative working with neighbouring Police Authorities. Members need to continue to obtain assurance in respect of the governance, accountability and accounting risks associated with partnership initiatives.
- 10 The Authority and Force have appropriate arrangements in place to follow up referrals from the Audit Commission's National Fraud Initiative. Officers have found no evidence of fraud to date from the 2009 exercise.

Audit fees

- 11 As reported in my Annual Governance Report, my review of the audit work undertaken has indicated that additional fees are required. The additional fees reflect the extra work involved in obtaining audit guidance and evidence for differences between the financial statements, the general ledger and the fixed asset register and reviewing additional asset valuations undertaken by the Authority.

Table 1 Audit fees 2008/09

	Actual	Planned	Variance
Financial statements and annual governance statement	58,500	54,500	4,000
Value for money	28,000	28,000	0
Total audit fees	86,500	82,500	4,000
Non-audit work	0	0	0
Total	86,500	82,500	4,000

Actions

- 12 Recommendations are shown within the body of this report and have been agreed as set out in Appendix 2.

Independence

- 13 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Key messages

Recommendations	
R1	Review progress made to prepare for the 2010/11 financial statements in line with International Financial Reporting Standards.
R2	Review the outcome of the Use of Resources assessment as reported in the Annual Governance Report and consider actions to take to address the areas for improvement.
R3	Review the robustness of plans required to deliver the savings outlined in the Medium Term Financial Strategy.
R4	Obtain assurance in respect of the governance, accountability and accounting risks associated with partnership initiatives.

Financial statements and annual governance statement

Norfolk Police Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds.

Significant issues arising from the audit

- 14** I issued an unqualified opinion on the financial statements on 30 September 2009.
 - 15** Before giving my opinion I reported to those charged with governance (Authority Members) on 24 September 2009, on the issues arising from the 2008/09 audit.
 - 16** My report highlighted five errors within the financial statements, which Members agreed to amend. The errors found were not material to the financial statements and did not impact on the financial position of the Authority.
-

Material weaknesses in internal control

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

Accounting practice and financial reporting

- 18** I considered the qualitative aspects of your financial reporting.
 - 19** My report noted amendments to the financial statements for several accounting policies and disclosure notes and the need for the Force to reconcile the financial statements to the general ledger and fixed asset register.
-

Review of Internal Audit

- 20** My triennial review of Internal Audit concluded that the service provided by Norfolk Audit Services to Norfolk Police Authority complies with the Code of Practice for Internal Audit in Local Government.
 - 21** My review did not identify any significant issues but I identified five areas for improvement to enhance the existing arrangements and these have been reported to management.
-

Financial statements and annual governance statement

22 In 2009/10 Internal Audit are moving to cyclical testing of significant financial systems. Internal Audit is helping Force officers prepare a self-assessment to ensure that sufficient assurances exist for those financial systems not reviewed independently in order to support the 2009/10 Annual Governance Statement. I have shared with Internal Audit my documentation of the key controls within significant financial systems to facilitate this process.

International Financial Reporting Standards

23 The Authority will need to prepare its 2010/11 financial statements under International Financial Reporting Standards (IFRS).

24 Early preparations are required in order to:

- re-state comparative figures, including potential complex calculations in respect of the existing private finance initiative (PFI) scheme;
- produce the Authority's Whole of Government Accounts schedules from 2009/10 based on IFRS principles; and
- compile the 2010/11 Authority's budget on the new basis.

25 The new Standards represent a significant change in financial reporting and Authority Members need to monitor progress for the preparation of the 2010/11 financial statements in line with International Financial Reporting Standards.

Value for money conclusion and use of resources

I considered how well Norfolk Police 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

- 26** 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.
- 27** 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.
- 28** Overall, Norfolk Police Authority and Force scored at level 3 in its use of resources, which equates to performing well. The Authority's use of resources theme scores are shown in Table 2 below.

Table 2 Use of resources theme scores

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

- 29** Overall, Norfolk Police Authority and Force are performing well in managing their finances and governing the business, but adequately in managing resources, which for 2008/09 covered the planning, organisation and development of the Authority's and Force's workforce.
- 30** The key findings and conclusions for the three themes, and the underlying KLOEs, were reported in my Annual Governance Report on 24 September 2009. The summary judgements to support the theme scores are provided in Appendix 1.

Value for money conclusion and use of resources

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.
- 32** I issued an unqualified value for money conclusion stating that Norfolk Police Authority had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Financial position

- 33** For 2008/09, the Authority reported a net revenue underspend of £1.3 million against a budget requirement for 2008/09 of £138.3 million. Capital expenditure amounted to £6 million which was £2.6m million less than the revised approved programme of £8.6 million. This was mainly due to slippage of £1.3 million in respect of site and building purchase at Wymondham due to legal formalities, whilst all other significant projects have progressed during 2008/09.
- 34** As at 31 August 2009, the Authority forecast a net revenue overspend of £0.5 million against the approved budget of £142.7 million for 2009/10 and the Authority is using £2.4 million earmarked reserves to fund spending activity. The Force's programme of change continues to present risks in view of the savings needed to fund new service delivery structures.
- 35** Financial reporting within the Authority continues to highlight significant budgetary pressures for 2010 - 2013. As reported at the June 2009 Authority meeting, the funding shortfall 2010/11 - 2012/13 has risen from the original estimate of £9 million to £10.2 million. Anticipating other pressures, the Force is working on a savings target of £15 million over the period to 2012/13.
- 36** Members will need to ensure that plans devised are sufficiently robust to deliver the required savings.

Economic downturn

- 37** The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them.
- 38** 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. There are further challenges for policy priorities where patterns of demand for services are changing. This may require the delivery of more stretching efficiency targets in the future.

- 39** Norfolk Police Authority responded promptly to the collapse of the Icelandic Banks by reporting to Members in November 2008 and improving accountability and governance through:
- listing all deposits at each Authority meeting for Members' attention; and
 - a six monthly examination of the Treasury and Management policy at Scrutiny and Audit Committee meetings.
- 40** In addition, Members were appraised on how the Authority was addressing the recommendations in the Audit Commission report on Treasury Management: 'Risk and Return'.
- 41** The Chief Constable and Treasurer updated the Authority's medium term financial strategy in June 2009 as a recognition, in part, of the economic forecast and potential future contractions in government spending.
- 42** Management consider that there could be a significant impact on service delivery if worst-case scenarios apply. Members should remain vigilant as to economic conditions and the potential impact for the Authority and Force.

Norfolk policing model

- 43** Norfolk Constabulary's Organisational Development Review, ongoing since February 2007, has led to the development of the Norfolk Policing Model. The model aims to co-ordinate a programme of change focused upon ensuring value for money and a policing framework where communities and customers come first.
- 44** A key outcome was the reforming of the three former basic command units into one county service delivery unit. The Chief Constable's April 2009 report to Members notes that the change programme in 2008/09 had delivered efficiency savings of £3.7 million by 31 March 2009.
- 45** Alongside the Review, 52 Safer Neighbourhood Teams (SNTs) were established. SNTs have a key role in the delivery of the National Policing Pledge, which sets a standard for all police forces to deliver to local people.
- 46** In October 2009, Her Majesty's Inspectorate of Constabulary's (HMIC) reported how well police forces in England and Wales were delivering the standards promised to the public. Norfolk Constabulary was assessed as 'fair'.
- 47** Members should monitor the benefits and efficiencies arising from the Review and address the issues raised within the HMIC report on 'Delivering the Policing Pledge'.

Partnership working and collaboration

- 48** The Authority continues to enter into a series of partnerships with neighbouring Police Authorities for a range of services, including:
- the Eastern Region 6 Counties Collaboration Project;
 - a preferred partner' arrangement with Suffolk Police Authority;
 - a partnership with Suffolk Police Authority for the construction of custody centres under a Private Finance Initiative (PFI), scheduled for completion in 2010/11.
- 49** To address the gap in capacity within Protective Services and achieve efficiency savings, from 1 April 2009 the following joint Protective Services Units have been delivered with Suffolk Police Authority:
- a joint Major Investigation Team to investigate homicides and other major crimes across both Forces; and
 - a joint Norfolk/Suffolk Witness Protection Unit.
- 50** Although the planned collaboration for a joint Human Resources function did not proceed, further collaboration across several Protection Service areas in 2009/10 is progressing.
- 51** Governance arrangements exist to manage these collaborative partnerships and the PFI through joint committees and formal agreements. This remains a high risk area and Members need to continue to obtain assurance in respect of the governance, accountability and accounting risks associated with partnership initiatives.

National Fraud Initiative

- 52** 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.
- 53** The Authority and Force have appropriate arrangements in place to follow up referrals from the Audit Commission's National Fraud Initiative. Officers have found no evidence of fraud to date from the 2009 exercise.

Closing remarks

- 54** I have discussed and agreed this letter with the Chief Executive and the Treasurer. Copies have been provided to all Authority Members and I will present this letter at the Scrutiny and Audit Committee on 7 January 2010
- 55** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to Norfolk Police Authority during the year.

Table 3

Report	Date issued
Audit Plan	April 2008
Opinion Audit Plan	December 2008
Triennial Review of Internal Audit (to management)	May 2009
Annual Governance Report (incorporating Use of Resources Report)	September 2009
Auditor's report giving an opinion on the financial statements and value for money conclusion	September 2009
Whole Government Accounts opinion	October 2009
Annual Audit Letter	November 2009

-
- 56** Members and officers have taken a positive and constructive approach to our audit. I wish to thank the Authority and Force staff for their support and co-operation during the audit.

Robert Davies
 Senior Audit Manager/Engagement Lead
 November 2009

Appendix 1 – Value for money conclusion

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

Managing finances

Theme score	3
Key findings and conclusions	
<p>The Authority and the Force integrate financial and corporate planning via the Medium Term Financial Strategy (MTFS), enabling timely budget approval. From 1 April 2008, resources were re-directed from three basic command units to one county delivery unit to reduce duplication and standardise services and invest in additional officers and increase Safer Neighbourhood Team resources. The shift in resources is contributing to improved falling crime statistics and increased in public satisfaction levels. The MTFS clearly identifies resource shortfalls of £10.2 million from 2010/11 – 2012/13, with the Force working to identify £15 million savings. The Authority and Force have a thorough, reasoned and well-benchmarked understanding of both its costs and performance the new policing model for Norfolk has delivered timelier, more visible and better quality services, more efficient shift patterns and better targeted. The Authority and Force have a record of achieving efficiency savings. Members receive regular reports from the Authority and Force that are clear and relevant and highlight the key financial and performance issues and risks to aid decision-making. Websites provide good accessibility to the diverse needs of the public, meeting equalities legislation. Further work is required to review systematically the outcome from discussions with partners around financial issues:</p> <ul style="list-style-type: none">• demonstrating overtly the link between performance and finance reports in the presentation of key information for decision-making; and• establishing and reporting on outcomes from actions proposed as regards assessing impact on the environment.	

Governing the business

Theme score	3
Key findings and conclusions	
<p>The Authority and Force have a clear, shared and complementary vision for policing, shaped by a detailed, needs based, well-researched understanding of public satisfaction, which has led to more visible, responsive and better staffed front-line policing. A robust framework exists to manage data quality, including scrutiny, standards for better quality data and a risk based audit and self-assessment. The Scheme of Delegation, Financial Regulations, Standing Orders and Member Handbook set out clearly roles and responsibilities of senior officers and Members. The Authority and Force have adopted Member and staff codes of conduct and both websites set out clearly the complaints process. An approved risk management framework is well established at Authority and Force level, which shapes priorities and resource allocation and is updated for key risks such as partnership working. The Authority and Force have a pro-active programme of counter fraud and corruption work. The Authority and Force maintain a sound system of internal control, via an Internal Audit function, compliant with the CIPFA standards, Further work is required to formalise training plans for Members, develop a more robust methodology to test and demonstrate that staff and the public have knowledge and confidence in the ethical agenda, develop further risk management arrangements at Force and demonstrate fully that all significant partnerships have put in place risk management arrangements as part of setting priorities.</p>	

Managing resources

Theme score	2
Key findings and conclusions	
<p>The Authority and Force manage organisational change well and have a strong improvement culture. The workforce is skilled, productive, well managed and trained. Staff are deployed to good effect. Many initiatives are in place to sustain improvement. However, progress against equalities targets is mixed, many initiatives to develop staff are not fully in place and Authority Member selection and appraisal processes are not fully effective.</p>	

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
5	R1 Review progress made to prepare for the 2010/11 financial statements in line with International Financial Reporting Standards.	3	Director of Financial Services & Accountancy	Agreed	Research and training have been undertaken within the Finance Department to ascertain the new requirements, with the intention of establishing this as a formal project. Regular progress reports will be produced for the Scrutiny and Audit Committee to report progress against requirements.	February 2010 ongoing to June 2011
5	R2 Review the outcome of the Use of Resources assessment as reported in the Annual Governance Report and consider actions to take to address the areas for improvement.	3	Assistant Chief Officer (Resources)	Agreed	Outcomes of Use of Resources 2008/09 and Areas for Improvement have been circulated to all Heads of Departments and NPA Officers on 24 September 2009. Lead officers have been identified to address the Areas for Improvement. Actions will be reported in the self-assessment for Use of Resources 2009/10, following discussion with AC about PURE 2009/10 process and timescales.	Completed
5	R3 Review the robustness of plans required to deliver the savings outlined in the Medium Term Financial Strategy.	3	Assistant Chief Officer (Resources)	Agreed	Plans are being and will be reviewed by the Constabulary and Authority in accordance with the published Financial Planning process, most recently reported to the NPA Finance Seminar on 13 October 2009.	On-going
5	R4 Obtain assurance in respect of the governance, accountability and accounting risks associated with partnership initiatives.	3	Chief Executive Norfolk Police Authority	Agreed	Detailed consideration to these areas is given when individual partnership initiatives are examined.	On-going

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, audio, or in a language other than English, please call 0844 798 7070.

© Audit Commission 2009

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk
