

Annual governance report

Norfolk Police Authority

Audit 2010/11



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Traffic light explanation

Red  Amber  Green 

Key messages

This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my 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.

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

Audit opinion and financial statements

- My audit of the financial statements is substantially complete.
- Management provided IFRS compliant accounts by 30 June 2011 deadline, supported by good working papers.
- Management has amended the statement of accounts for several errors found during the audit as set out in Appendix 2. These amendments are presentational and do not impact on the financial position of the Authority.
- Management has also updated accounting policies and amended several disclosure notes.
- Management decided not to amend for immaterial sums for firearms licence income and the classification of non-specific grants, classified as specific grants in previous years. I set out the details at Appendix 3.

Value for money

- The Authority achieved its overall efficiency plan targets and underspent against its budget in 2010/11. Based on the Authority's planning assumptions, the Authority's Medium Term Financial Plan from 2011/12 – 2014/15 shows a funding gap of up to £24.5 million. The Authority and Constabulary are developing savings plans and using earmarked reserves to meet the gap. Achieving early savings from collaboration with Suffolk Police Authority is central to delivering the Plan and Members need to monitor delivery timescales.
- Senior management and Members provide strong leadership to prioritise resources and focus efforts on spending reductions. The Authority and Constabulary are challenging existing structures through wide-ranging collaboration business support initiatives involving Suffolk Police Authority. Her Majesty's Inspectorate of Constabulary has described the change plan with Suffolk Constabulary as exemplary, with the proposals being some of the most ambitious and well planned in the country.

Before I complete my audit

I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. I do not design my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2010/11.

Audit Fee

I have undertaken extra work than planned for the audit of the pension fund disclosures in the Comprehensive Income and Expenditure Statement, disclosures of the Private Finance Initiative, Collaboration and for testing Property, Plant and Equipment. I will discuss any extra fee which may arise with the Chief Executive and Treasurer after completing the audit.

I ask you to confirm to me

I ask the Norfolk Police Authority to:

- note the adjustments to the financial statements set out in this report (see Appendices 2 and 3);
- approve the letter of representation, provided alongside this report before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (Appendix 5).

Financial statements

The Treasurer signed the financial statements, on 28 June 2011 before the 30 June 2011 statutory deadline. This is a very good achievement given the complexities involved with preparing accounting entries for the first time in line with International Financial Reporting Standards (IFRS). Management provided good working papers to support the financial statements.

My audit of the financial statements is substantially complete. I have still to complete my audit of the Comprehensive Income and Expenditure Account (CIES), Pension Fund and Plant, Property and Equipment valuations. Work on other disclosure notes is nearing completion. Once I have completed these areas of testing, I will undertake a final review of the financial statements and complete the audit of the Whole of Government Accounts (WGA) consolidation package.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue my financial statements opinion, value for money conclusion, and audit closure certificate by 30 September 2011. Appendix 1 contains a copy of my draft report

Should any more matters arise, in finishing the remaining work, I will raise them by an addendum report or directly with Authority Members on 22 September 2011. Should any more changes to the financial statements arise before I issue my opinion on 30 September 2011, I will raise directly with the Chief Executive, Treasurer and Chairman of the Authority.

Corrected Errors in the financial statements

As set out in Appendix 2, management has corrected the accounts for several errors to comply with the disclosure requirements specified by the IFRS Code of Practice. The amendments are presentational and do not impact on the financial position of the Authority.

Comprehensive Income and Expenditure Statement (CIES): Exceptional item – future pension increases based on CPI and not RPI

Disclosures on the CIES and Note 27 Defined Benefits Pension Scheme explain the adjustment to past service costs of £130.872m. The sum arises from the Government's decision to base future pension increases on the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). Management had recorded the sum under Income in the CIES but has corrected the CIES to show the sum as a credit to expenditure in line with guidance notes to the IFRS Code. The amendment is presentational and does not affect the financial position of the Authority.

CIES and Balance Sheet: Accounting for Current Service Pension Costs and Home Office Top-Up Grant

Management has amended the CIES to correct the following entries:

- the inclusion of a credit of £28.848m (£30.043m in 2009/10) in Gross Income in Net Cost of Services for employer and employee contributions and benefits payable to pensioners which the Authority should have credited to Pension Assets and Actuarial Gains/Losses;
- the inclusion in Gross Expenditure in Net Cost of Policing of employers contributions of £20.503m (£20.383m in 2009/10), which duplicates the debit entry within the Movement in Reserves Statement;
- disclosure of the Home Office top-up Grant of £7.175m (£8.289m 2009/10) as a non-specific grant in Taxation and Non-Specific Grant Income rather than a specific grant within Other Operating Expenditure with the associated payment from Norfolk Police Authority to the Norfolk Police Pension Fund;
- the understatement of £7.175m (£8.289m 2009/10) within Actuarial Gains and Losses on Pension Assets and Liabilities

Management has amended the Balance Sheet to correct the following entries:

- the understatement on the balances for Pension Reserve and Pension Liability of £7.175m (£8.289m 2009/10).

The amendments made are presentational and do not affect the financial position of the Authority. As the Authority has misstated the entries over a number of years the Authority has disclosed a prior period adjustment to restate the 2009/10 comparative figures.

Balance Sheet – Revaluation Reserve and Capital Adjustment Account

Management has amended the Balance Sheet to correct the original inclusion of the Aylsham Police Investigation Centre PFI asset at its revalued price (5.1 m). The IFRS Code of Practice Note indicates at pages 468 to 470 Authorities should bring assets on to the Balance Sheet at fair value matched by the PFI liability (£3.3m). The Authority has also amended corresponding sums in the Movement in Reserves Statement, CIES, Cash Flow and at Note 16 to the Financial Statements for the Revaluation Reserve and the Capital Adjustment Account for the difference of £1.840m. The amendment is presentational and does not affect the financial position of the Authority.

Note 16: Unusable Reserves: Capital Adjustment Account

Management has amended the Capital Adjustment Account to Reduce Capital Grants and Contributions Credited to the CIES that have been Applied to Capital Funding by £1.033m and £0.159m in 2009/10 and 2010/11 respectively. This reflects that the Authority have now disclosed these sums as the Application of Grants to Capital Financing from the Capital Grants Unapplied Accounts. The amendment is presentational and does not affect the financial position of the Authority.

Uncorrected Errors in the financial statements

CIES – Accounting for Income from Firearms Licences

Appendix 3 notes management has declined to correct for an error in the accounting for income from firearm licences. The Authority's accounting policies state that income is received on an accruals basis but the Authority has accounted for the income from firearms licences on a cash basis. By so doing, the Authority recognises all income in the year in which it is received, rather than recognising that some income relates in the future; the Authority grants licences on a three or five year basis. For 2009/10 the Authority understated income by an estimated £49,000. In 2009/10 the Authority overstated income by £78,000. Corrections would impact on the General Fund balance and so affect the financial position of the Authority.

CIES – Accounting for former Specific Grants

Appendix 3 notes management has declined to amend for the accounting treatment of four government grants, known as Rule 2 grants. The grants total £2.3m for rural policing fund (£1.354m), forensics £0.349m; special priority payments (£0.536m) and Initial Police Learning and Development Programme (£0.105m). In previous years, authorities classed these grants as specific. This year the IFRS Code guidance indicates the sums are not specific to services. As such the Authority should disclose the four sums together within Taxation and Non-Specific Grant Income and not within Net Cost of Policing. The amendment would be presentational and would not affect the financial position of the Authority.

Recommendation

Recommendation

- R1** Amend the financial statements to accrue for the estimated firearm licence income of £78,000 recorded as income in 2010/11, but due between 2011/12 and 2014/15.
 - R2** Re-classify the four Rule 2 grants totalling £2.3m in 2010/11 within the CIES as Taxation and Non-Specific Grant Income rather than within Net Cost of Policing.
-

Financial statements

The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As Authority members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Key audit risk and our findings

Key audit risk	Finding
<p>International Financial Reporting Standards (IFRS)</p> <p>Local authorities must now prepare financial statements under the IFRS, as adopted by the Code of Practice on Local Authority Accounting in the United Kingdom (Code of Practice). A risk exists the 2010/11 financial statements do not meet the new requirements.</p>	<p>I reviewed and tested whether the Authority:</p> <ul style="list-style-type: none">■ identified those transactions and balances affected by the transition to IFRS;■ adopted and correctly applied accounting policies that comply with the requirements of the Code and IFRS;■ properly restated 2009/10 transactions and balances following the adopted accounting policies and IFRS; and■ made all appropriate disclosures in accordance with adopted accounting policies and the requirements of the Code and IFRS. <p>The Constabulary undertook early work to understand the implications of IFRS and produced draft restated accounts by April 2011. I audited the restated 1 April 2009 and 2009/10 financial statements in April and May 2011. My audit noted that at Note 4 to the financial statements, Current Assets Held for Sale as at 31 March 2009 included three assets where the Authority did not complete the sale until 2010/11. Management has amended for this error before the Treasurer signed the financial statements. The amendment of £0.406m is presentational and does not affect the financial position of the Authority. Therefore no further action is required.</p>

Key audit risk

Financial Environment

The financial environment is becoming increasingly challenging with significant cuts in funding, including grant support from central government. The Authority is reflecting the economic downturn in its financial planning. However the scale of the cuts may increase the risk of misreporting.

Private Finance Initiative

Under the Police Investigation Centres PFI Project, it is likely the Constabulary will include the Aylsham custody suite in the 2010/11 financial statements.

A risk exists the complex accounting arrangements for the Police Headquarters PFI do not comply with CIPFA's code of practice on local authority accounting and the Constabulary misstate the financial statements.

Finding

I have undertaken audit work to:

- follow up differences between the in year financial forecasts and year-end position;
- review transactions at year-end to ensure inclusion to the correct financial period; and
- test material adjustments made by journals to ensure the Authority and Constabulary have accounted for these correctly.

I have considered also the impact of any onerous or abortive contracts, senior officer redundancy payments, fixed asset valuations, impairments and additions and treatment of provisions following International Accounting Standard 37.

I have no significant issues to report from my work, other than the uncorrected error for the allocation of income of £0.078m between financial years from firearms licences (Appendix 3). Corrections would impact on the General Fund balance and so affect the financial position of the Authority.

The Aylsham custody suite became operational on 28 February 2011. Norfolk Police Authority brought the asset and the liability onto the Balance Sheet in 2010/11.

My audit has reviewed the asset and the associated liability. I have also agreed the disclosures of the capital contract values and revenue service and capital payments at Note 18 to the accounts to underlying records.

I have no significant issues to report from my work, other than the corrections made to bring the asset on the balance sheet at fair value matched by the PFI liability rather than at valuation and the consequent changes to Note 23 Capital Financing Requirement (appendix 2). The amendment of £1.840m is presentational and does not affect the financial position of the Authority

Key audit risk	Finding
<p>Collaboration</p> <p>The Constabulary continues to collaborate with Suffolk Constabulary. In total the resulting entries in the accounts may be material to the financial statements.</p>	<p>I am currently testing the entries in disclosure note 40 to the financial statements.</p> <p>From work undertaken to date, I have no significant issues to report from my work</p>
<p>Payroll System</p> <p>My 2009/10 payroll audit found the Constabulary applied controls over the accuracy and completeness of starters and leavers inconsistently. I could not also identify a control on which I could place reliance for classifying staff and officer pay.</p>	<p>The Authority set up a new control during 2010/11, whereby the establishment management group reviews and agrees all posts, including assignment of a General Ledger code. The Head of Accountancy Services reviews and checks the coding.</p> <p>I have no significant issues to report from my audit testing on the operation of the control.</p>
<p>Internal Audit cyclical testing</p> <p>From 2009/10 Internal Audit are testing financial systems cyclically. A risk exists of insufficient assurance for the Authority's consideration of the Annual Governance Statement.</p>	<p>I have reviewed Internal Audit's consideration of the Constabulary's assessment of key controls not tested by Internal Audit.</p> <p>Both the Constabulary and Internal Audit have undertaken sufficient work to provide assurance for the Annual Governance Statement.</p>

Financial statements

Significant weaknesses in internal control

I do not provide a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which officers may make. I report only on those matters which have come to my attention because of the audit procedures I have performed.

I have not identified any material weakness in the design or operation of an internal control that might result in a material error in your financial statements.

Financial statements

Quality of your financial statements

Management has also amended the Explanatory Foreword, Accounting Policies and several disclosure notes.

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. These are the issues I want to raise with you.

Accounting practices, policies, estimates and financial closures

Issue	Findings and recommendations
<p>1. Financial Statements disclosures – Explanatory Foreword</p> <p>The Authority has amended the explanatory foreword to provide more disclosures to explain why revenue outturn was £4.8m less than the £146.4m budget.</p>	<p>No further action required.</p>
<p>2. Accounting policies</p> <p>In the financial statements, the Authority includes a Statement of Accounting Policies before the primary statements covering Movement in Reserves, Comprehensive Income and Expenditure Statement, Balance Sheet and Cash Flow Statement. The IFRS Code at paragraph 3.4.2.75 sets out that accounting policies are a note to the financial statements. Management has declined to amend the 2010/11 financial statements on the basis that the accounting policies are fully disclosed as part of the overall financial statements. The Authority intends to disclose Accounting Policies as a note to the primary statements in 2011/12.</p>	<p>The Authority should include Accounting policies as a note to the accounts. Management has declined to do so but intend to do so in 2011/12. Therefore I have not made a separate recommendation.</p>

3. Financial Statements Disclosures – Notes to the Cash Flow

Paragraph 3.4.2.68 of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) sets out the items to be included within the Cash Flow but does not state explicitly what must be disclosed. Page 153 of Code of Practice Guidance Notes sets out the need to document the process of adjustment. The purpose is to aid transparency in showing how the sum is calculated from within the financials statements.

Management has declined to provide notes to the Cash Flow to document the adjustment of £64.9m as this is not required by the Code. I have audited the Authority's working papers to determine that the sum can be derived from the financial statements. The Authority intend to disclose the adjustment in Notes to the Cash Flow in the 2011/12 financial statements. . I have sought a representation from Members in my letter of representation.

If you decide not to amend the financial statements, please provide the reasons in the letter of representation.

4. Financial Statements Disclosures – Note 10 Financial Instruments (Note 11 Debtors, Note 13 Creditors)

Management has amended Debtors and Creditors to reflect IFRS Code guidance (page 642) that Authorities should exclude statutory sums, such as council tax debts which do not arise from contracts, from disclosures within financial instruments. The amendments are presentational and do not affect the financial position of the Authority.

No further action required.

5. Financial Statements Disclosures – Note 17: Amounts Reported for Resource Allocation Decisions

Management has amended the 2009/10 Disclosure Notes to provide the information between years on a comparable basis. Management has made material amendments to Command Pay: Employee Expenses (from £50.2m to £95.9m, Command and Central Support (£57.4m to £11.8m). The amendments are presentational and do not affect the financial position of the Authority.

No further action required.

6. Financial Statements Disclosures - Note 22: Capital Expenditure and Capital Financing

Management has amended the Capital Financing Requirement Note for Increases in Borrowing (£0.066m to £0.593m) and for Assets Acquired Under PFI Contracts (£3.357m from £3.557m). The increase in Capital Financing Requirement of £4.825m now reflects the movement in the Closing Capital Financing Requirement (£56.475m in 200/11 less £51.650m in 2009/10).

No further action required.

7. Disclosures Notes to support notes to the 1 April 2009 Balance Sheet

Local Authority Accounting Panel Bulletin 88 provides guidance on the interpretation of the IFRS Code of Practice. The Bulletin indicates that authorities should provide disclosure notes to support the 1 April 2009 Balance Sheet. The Authority has decided not to disclose notes to support 1 April 2009 the Balance Sheet. The IFRS Code of Practice does not specify that authorities should include notes to the 1 April 2009 Balance Sheet and the IFRS Code of Practice guidance notes do not provide examples. I have sought a representation from Members in my letter of representation.

If you decide not to amend the financial statements, please provide the reasons in the letter of representation.

Recommendation

R3 Disclose notes to the Cash Flow Statement for material adjustments and notes to the restated 1 April 2009 Balance Sheet within the financial statements.

Financial statements

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements.

Value for money

I am required to conclude whether the Authority put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money 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 conclusion on each of the two areas is set out below.

I intend to issue an unqualified conclusion stating the Authority had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for money criteria and our findings

Criterion	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</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>The Authority underspent by £4.5m against its net revenue expenditure budget in 2010/11. The underspend arose because of non pay net savings of some £1.5m, a moratorium upon recruitment and reduced borrowing costs from reductions in capital expenditure. With planned contributions to reserves of £0.3m, the Authority's earmarked reserves increased by £4.8m to £17.450m with general fund balances remaining at £4.475m.</p> <p>The Authority continues to exercise strong monitoring arrangements for progress against budgets and the impact of savings upon performance.</p> <p>The Authority has reviewed its priorities in light of increased financial pressures. There is good communication with external stakeholders of the medium- to long-term financial strategy, current financial position and likely financial challenges.</p>

In response to the Government's Comprehensive Spending review, the Authority has identified in its Medium Term Financial Plan resource shortfalls of £24.5 million from 2011/12 to 2014/15. The Authority and Force are developing savings plans to address, focussing on longer term financial solutions involving collaboration with Suffolk Police Authority and in particular the wide-ranging review of business support units. Addressing the shortfall depends on the early achievement of savings from collaboration (70% of the joint £9.8m savings from business support within the first two years) and the extensive use of earmarked reserves from 2012/13 to 2014/15. Members need to be vigilant in monitoring the delivery of savings to set timescales to enable the Authority to replenish reserves.

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.

Members and senior management provide strong leadership to prioritise resources. The Authority have set a clear vision for prioritising reductions in serious crime and increasing police visibility, accessibility and an increase in community satisfaction. The Authority aims to address funding shortfalls and a potential impact on service delivery through savings from increased collaborative working across a number of police forces and with Suffolk Police Authority. Her Majesty's Inspectorate of Constabulary has described the change plan with Suffolk Constabulary as exemplary, with the proposals being some of the most ambitious and well planned in the country.

During 2010/11 the Authority and Constabulary have actively engaged with staff, stakeholders and the community to communicate plans and strategies.

There is a good understanding of costs and how these relate to performance. The Authority uses performance and financial monitoring to ensure ongoing efficiency and productivity. The Authority and Constabulary routinely benchmark performance against national data to identify performance outliers and take action where appropriate.

The Authority reported efficiency plan savings of £5.4m against a target of £5.6m for 2010/11. Overall, the savings delivered contributed to the Authority's reported savings of 13.45% of gross revenue expenditure from 2007/08 to 2010/11, against an overall target of 10.3%.

Appendix 1 – Draft audit report

DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORFOLK POLICE AUTHORITY

Opinion on the Authority and Pension Fund accounting statements

I have audited the accounting statements and the police pension fund accounting statements of Norfolk Police Authority for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. The police pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Norfolk Police Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Treasurer and auditor

As explained more fully in the Statement of the Treasurer's Responsibilities, the Treasurer is responsible for the preparation of the Authority's Statement of Accounts, including the police pension fund accounting statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority and the Pension Fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Norfolk Police Authority's affairs as at 31 March 2011 and of its income and expenditure for the year then ended;
- give a true and fair view of the financial transactions of the police pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Norfolk Police Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the accounts, including the *police* pension fund accounting statements, of Norfolk Police Authority in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Neil Harris

District Auditor and Engagement Lead

Officer of the Audit Commission

Audit Commission, 3rd Floor, Eastbrook, Shaftesbury Road, Cambridge, CB2 8BF

September 2011

Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Adjusted misstatement	Nature of adjustment	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
The Authority has credited the amount relating to the change from RPI to CPI for pension indexation to income in the CIES, which is inconsistent with IFRS Code guidance.	Non distributed costs (Income)	130.872			
	Non distributed costs (Expenditure)		130.872		
The Authority has corrected the previous accounting entries for current service costs	Net Cost of Services: (Income)	28.848			
	Pension Reserve				28.848
The net effect of the amendments is to increase the Pension Reserve and the Pension Liability in the Balance Sheet by the Home Office Top Up Grant	Pension Reserve			20.503	
	Net Cost of Services: (Expenditure)		20.503		
	Balance Sheet: Pension Reserve			7.175	
	Balance Sheet: Pension Liabilities				7.175

Adjusted misstatement	Nature of adjustment	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Aylsham Police Investigation Centre PFI asset brought on balance sheet at revalued amount not at fair value and the liability amount as required by the IFRS Code of Practice`	Balance Sheet: Revaluation Reserve Balance Sheet: Capital Adjustment Account			1.840	1.840
Capital grants and contributions credited to the CIES that have been applied to capital financing, which the Authority should class as Movements in the capital grants unapplied account	Note 16: Capital Adjustment Account (Movements in the capital grants unapplied account) Note 16: Capital Adjustment Account (Capital grants and contributions credited to the CIES that have been applied to capital financing)			0.159	0.159

Appendix 3 – Unadjusted misstatements to the financial statements

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements.

If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter.

Unadjusted misstatement	Nature of required adjustment	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
To amend for an estimate of Firearms Licence income accounted for on a cash basis in the 2010/11 financial statements, which the Authority should accrue as the income is due between 2011/12 and 2014/15.	Net Cost of Policing: Income Balance Sheet Accruals	0.078			0.078

		Comprehensive income and expenditure statement		Balance sheet	
Unadjusted misstatement	Nature of required adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
To re-classify the four Rule 2 grants totalling £2.3m in 2010/11 within the CIES as Taxation and Non-Specific Grant Income rather than within Net Cost of Policing.	Net Cost of policing: Income Taxation and Non-Specific Grant Income	2.344	2.344		

Appendix 4 – Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

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 the Authority has prepared these properly, following the relevant accounting rules.

Opinion

If I agree 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 the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. I may also consider Materiality for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit on the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- The Authority designs, set ups or uses a control in such a way it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

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.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;

- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support achieving of strategic priorities.

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.

Appendix 5 Action Plan

Recommendations

Recommendation 1

Amend the financial statements to accrue for the estimated firearm licence income of £78,000 recorded as income in 2010/11, but due between 2011/12 and 2014/15.

Responsibility	Bob Summers, Treasurer
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Priority	High
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Date	22 September 2011
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Comments	No amendment required as sum is not material.
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Recommendation 2

Re-classify the four Rule 2 grants totalling £2.3m in 2010/11 within the CIES as Taxation and Non-Specific Grant Income rather than within Net Cost of Policing.

Responsibility	Bob Summers, Treasurer
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Priority	High
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Date	22 September 2011
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Comments	No amendment required as sum is not material.
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Recommendation 3

Disclose notes to the Cash Flow Statement for material adjustments and notes to the restated 1 April 2009 Balance Sheet within the financial statements.

Responsibility	Bob Summers, Treasurer
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Priority	High
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Date	22 September 2011
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Comments	I note that the guidance to disclose these notes is set out in Local Authority Accounting Panel Bulletin 88. However, disclosures are not mandated by the IFRS Code of Practice and are not set out in the IFRS Code of Practice guidance notes. Therefore I have decided not to include the disclosure notes in the financial statements
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- any third party.



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September 2011