

Annual Audit Letter

November 2006



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Devon and Cornwall Police Authority

Audit 2005/2006

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explain 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.

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The purpose of this letter

- 1 The purpose of this Annual Audit Letter (letter) is to summarise the key issues arising from the work that we have carried out during the year. Although this letter is addressed to the members of the Authority, it is also intended to communicate the significant issues we have identified, in an accessible style, to key external stakeholders, including members of the public. The letter will be published on the Audit Commission website at www.audit-commission.gov.uk.
- 2 This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from www.audit-commission.gov.uk.

The responsibilities of the auditor and the Authority

- 3 We have been appointed as the Authority's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England, including Police Authorities.
- 4 As the Authority's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Authority achieving its objectives. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

The scope of our work

- 5 Our main responsibility as your appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:
 - the Authority's accounts; and
 - whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 6 This letter summarises the significant issues arising from both these areas of work and highlights the key recommendations that we consider should be addressed by the Authority. A list of all reports issued to the Authority in relation to the 2005/06 audit is provided in the closing remarks section at the end of this letter.

The audit of the accounts

- 7 We issued an unqualified opinion on the Authority's accounts on 28 September 2006.
- 8 The accounts presented for audit were available on time and were supported by good quality working papers. There were no significant issues within our annual governance report, presented to the Corporate Governance Committee on 19 September 2006.

Financial position

- 9 The Authority's expenditure in 2005/06 amounted to £243.688 million compared to the revised budget of £243.711 million. The underspend was due to savings made at the operational BCU level, offset by an increase of £0.754 million in pension costs. The opportunity was taken to strengthen general balances and specific reserves which now stand at £27.5 million. The general reserves at year end remained at a level consistent with the Authority's medium term financial strategy (2-3 per cent of net revenue expenditure).
- 10 Capital expenditure incurred during the year was £7.7 million compared to a revised programme of £11.6 million and an original budget of £14.5 million. The Authority has received reports on the reasons for the underspend, which include:
 - a planned reduction in capital spend during the year; and
 - slippage of significant building projects into 2006/07.

The Authority has identified this as an area of concern and so new capital monitoring arrangements are to be implemented, to improve the management of the capital programme.

- 11 Capital expenditure in 2005/06 and 2006/07 is financed from capital grants, reserves and borrowings. Borrowings during the year have been increased in line with the Treasury Management Strategy and at 31 March 2006 were £13.0 million (£4.3 million at 31 March 2005).
- 12 The Authority approved the 2006/07 revenue budget (£246.274 million) and capital programme (£13.808 million) in advance of the start of the financial year. At the end of September 2006, the Authority is forecasting a £0.091 million underspend against its expenditure budget at the year end.

Risk management

- 13 The Authority and Force's approach to risk management has been very positive with its recognition by HMIC as good practice. The policy and strategy have been universally accepted across the Force. The risk register is subject to a bi-monthly review by the Management Board of the Force and the results are presented to the quarterly Corporate Governance Committee. Each risk is allocated to a named key individual. The Force are about to start a further review of the policy and strategy behind risk management which should be completed in the spring of 2007. This will inform the annual review of the Risk Management Policy in 2007 and will be supported by the post implementation review currently being carried out by Internal Audit.
- 14 The risk management culture is beginning to become embedded within the organisation with the top eight risks soon to be used as the basis for discussions about objectives and resource planning at the next senior manager's seminar.

Job evaluation

- 15 In April 2005, the Constabulary announced the results of its job evaluation project identifying and assessing in excess of 500 job roles for police staff. A large number of staff were to be regraded with some receiving salary enhancements and some having their salaries reduced, in some cases significantly, after a period of protection. As a result of the adverse and high profile reaction by many staff, it was agreed that salary reductions would not be imposed but that those receiving enhancements would retain them.
- 16 In view of the seriousness of the situation, the Police Authority commissioned an independent review into the management, leadership and organisational issues involved. That review concluded that the project had serious shortcomings in terms of its concept, inception, objectives, management arrangements and outcome and that leadership and management issues existed at a number of levels. The report made a series of recommendations to avoid such a situation arising again.
- 17 The report was issued in April 2006 and subsequently debated by the full Police Authority in July 2006 and the recommendations were accepted in full. The report was also made available to the public.
- 18 Following the departure of the Chief Constable, and the announcement that police force mergers would not be proceeding, action has been taken by the Acting Chief Constable to progress a new job and grading review. The new job and grading review (JAG) is being undertaken to lay firm foundations for an equitable system of remuneration and to restore confidence and trust from the workforce. It is intended that this review will incorporate the learning points and recommendations from the Police Authority Report.

- 19 As a new job evaluation scheme could take between twelve and twenty-four months to complete, it is understood that interim arrangements will be put in place to facilitate organisational change in the immediate and short-term future arising from the Force Development Programme.
- 20 It is intended that the Police Authority will retain overall accountability and control of the JAG programme including its strategy and outcomes. The Force management will be responsible to the Police Authority for the effective delivery of the programme and will recommend to the Police Authority for consideration the remuneration and grading strategy.

Use of resources

- 21 We are required to issue a conclusion on whether we are satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is assessed against criteria specified by the Audit Commission and is known as the value for money conclusion.
- 22 We are also required to assess how well police authorities manage and use their financial resources by providing scored judgements on the Authority's arrangements in five specific areas. This is known as the Police Use of Resources Evaluation (PURE) and was completed for the first time in 2006.

Value for money conclusion

- 23 We concluded that the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources and therefore an unqualified VFM conclusion was issued on 28 September 2006.

Police Use of Resources Evaluation (PURE)

- 24 We assessed the Authority's arrangements in five areas. Each area was scored from 1 to 4 (1= inadequate performance, 2 = adequate, 3 = performing well, and 4 = performing strongly). The Audit Commission reported an overall scored Use of Resources Judgement of '3' to the Police Authority on 3 November 2006. Table 1 sets out the Auditor's judgements for each of these themes.
- 25 Interim feedback supporting our assessment on four of the themes and highlighting areas for improvement was reported to the Authority on 28 June 2006. A final report including the Financial Reporting theme will be issued in November 2006. Both the interim feedback and our most recent assessment of Financial Reporting were provided to HMIC to inform its baseline assessment.

Table 1 PURE scores

Area	Score	Recommended action
Financial reporting	3	Areas for improvement set out in the detailed PURE report (An interim feedback report (excluding financial reporting) was issued on 28 June 2006.
Financial management	3	
Financial standing	3	
Internal Control	3	
Value for money	3	
Overall Evaluation	3	

- 26 The scored judgements are linked to our responsibilities under the Code; the areas for improvement set out in the interim feedback report have been discussed with the Force and Authority and were presented by officers to the Resources Committee on 26 July 2006. The Resources Committee noted the current position and agreed the recommended good practice, subject to the Treasurer and Head of Finance considering the resource implications necessary to deliver the requirements of the audited assessment.

Review of Crime Data Quality

- 27 We reviewed the arrangements in place for recording and reporting crime data focusing on elements of data reported in the Police Performance Assessment Framework (PPAF).
- 28 Our overall rating for your management arrangements relating to crime recording and data was 'Good', and we assessed your data quality as 'Good'. The Force and Authority have agreed an action plan to further improve arrangements.

Activity Based Costing

- 29 We assessed the implementation of Activity Based Costing (ABC) by considering whether the Authority has systems in place to produce an accurate submission of costing data to the Home Office.
- 30 We assessed ABC management arrangements and utilisation as 'Fair' and the costing submission data quality as 'Poor'. The rating for data submission is lower than last year and the Force will need to strengthen its arrangements to ensure the accuracy and reliability of submissions in future years. An action plan has been agreed to address the issues arising from the audit and we understand that good progress is being made.

HMIC Baseline assessment

- 31 We have agreed locally with Her Majesty's Inspectorate of Constabulary that we will reflect the results and conclusions from their 2006 baseline assessment in this letter.
- 32 In the summarisation for the Policing Performance Assessment Framework (PPAF) HMIC commented that:

'The establishment of the serious, organised and specialist crime branch and the re-design of the major crime investigation team have improved the Force's capacity to tackle organised criminality and the investigation of serious crimes. The Local Resilience Forum is now chaired at senior level, providing strong leadership across the counties, and the major incident plan is one of only two in the entire South West Region, with the Force Community Risk Register seen as national best practice.'

- 33 The results of the PPAF assessment are shown in Table 2.

Table 2 Police performance and assessment for 2005/06

Performance Area	Delivery	Direction
Reducing Crime	Excellent	Improved
Investigating Crime	Fair	Stable
Promoting Safety	Good	Stable
Providing Assistance	Good	Stable
Citizen Focus	Fair	Stable
Resource Use	Fair	Improved
Local Policing	Fair	Deteriorated

34 The following table summarises the results of HMIC assessments.

Table 3 HMIC baseline assessment 2006

Summary of judgements	Grade	Direction of travel
Citizen Focus		
Fairness and Equality in Service Delivery	Good	Stable
Neighbourhood Policing and Problem Solving	Fair	Declined
Customer Service and Accessibility	Good	Stable
Professional Standards	Fair	Not graded
Reducing Crime		
Volume Crime Reduction	Good	Improved
Investigating Crime		
Managing Critical Incidents and Major Crime	Fair	Declined
Tackling Serious and Organised Criminality	Fair	Stable
Volume Crime Investigation	Good	Stable
Improving Forensic Performance	Poor	Improved
Criminal Justice Processes	Good	Stable
Promoting Safety		
Reducing Anti-Social Behaviour	Good	Declined

Summary of judgements	Grade	Direction of travel
Protecting Vulnerable People	Fair	Stable
Providing Assistance		
Contact Management	Fair	Stable
Providing Specialist Operational Support	Fair	Stable
Strategic Roads Policing	Good	Improved
Resource Use		
Human Resource Management	Poor	Stable
Training, Development and Organisational Learning	Fair	Improved
Race and Diversity	Fair	Stable
Managing Financial and Physical Resources	Good	Stable
Information Management	Fair	Improved
National Intelligence Model	Good	Stable
Leadership and Direction		
Leadership	Fair	Not graded
Performance Management and Continuous Improvement	Good	Stable

Closing remarks

- 35 This letter has been discussed and agreed with officers in the Authority. A copy will be presented to the Corporate Governance Committee on 21 November 2006 and then provided to all Authority Members.
- 36 Further detailed findings, conclusions and recommendations on the areas covered by our audit are included in the reports issued to the Authority during the year. These are listed in the following table.

Table 4 Reports submitted during the year

Report	Planned date of issue	Actual date of issue
Audit and inspection plan	April 2005	April 2005
Annual governance report	September 2006	September 2006
Opinion on financial statements	September 2006	September 2006
Value for money conclusion	September 2006	September 2006
Police use of resources evaluation - interim feedback	June 2006	June 2006
Police use of resources evaluation - final report	November 2006	November 2006
BVPP report	December 2005	November 2005
Review of Crime Data Quality	May 2006	May 2006
Review of Activity Based Costing	May 2006	May 2006
Annual audit letter	November 2006	November 2006

- 37 I would like to take this opportunity to thank the Authority and Force for the assistance and co-operation we have received during the course of the audit.

Peter Arkell
District Auditor
November 2006