

Annual Audit Letter

November 2007



# Annual Audit Letter

**Devon and Cornwall Police Authority**

**Audit 2006/07**

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 explains the respective responsibilities of auditors and of the audited body. Appointed auditors address their reports to non-executive directors or officers and for the sole use of the audited body. Auditors accept no responsibility to:

- any directors in their individual capacity; or
- any third party.

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# Contents

<b>Summary</b>	<b>4</b>
Key messages	4
<b>Purpose, responsibilities and scope</b>	<b>5</b>
<b>Use of resources</b>	<b>6</b>
Value for money conclusion	6
Review of police data quality	6
Police activity based costing	8
Police use of resources scores	8
National Fraud Initiative	11
<b>Audit of the accounts</b>	<b>12</b>
Accounting issues	12
Whole of government accounts	12
<b>Closing remarks</b>	<b>13</b>

# Summary

## Key messages

- 1 Our audit work during the year shows that the Authority and Force have continued to perform well. We have completed our audit for 2006/07 and have issued unqualified audit opinions on your financial statement and on your value for money conclusion. This confirms that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 2 The Police Authority and Force continue to perform well across the themes covered by our use of resources assessment (PURE). The Authority and Force have built on their strengths which have contributed towards maintaining a good level of performance across the board. Key actions for Police Authority Members have also been identified to ensure a continued focus on effective use of resources.
- 3 Our review of the arrangements in place within the Authority and the Force to secure the quality of key performance data highlighted that the direction of travel for overall corporate arrangements had deteriorated during 2006/07 from 'good' to 'fair', although the results of detailed testing of data compliance with the National Crime recording Standards had improved from 'good' to 'excellent'. The Police Authority and Force are keen to develop good corporate arrangements for securing data quality that are consistently applied throughout the organisation and have agreed an action plan to implement the recommendations made.

## Purpose, responsibilities and scope

- 4 This letter provides an overall summary of the Audit Commission's assessment of the Authority, based on audit work performed in relation to the accounting period ending 31 March 2007. Where relevant this work has included assessment of the arrangements in place in the police force, as well as the Authority.
- 5 I have addressed this letter to members as it is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. I have made recommendations to assist the Authority in meeting its responsibilities.
- 6 This letter also communicates the significant issues to key external stakeholders, including members of the public. I will publish this letter on the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk). In addition the Authority is planning to publish it on its website.
- 7 As your appointed auditor I am responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, I am required to review and report on:
  - the Authority's accounts;
  - whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
  - how well the Authority has managed its resources (the Police Use of Resources scores).
- 8 We have listed the reports issued to the Authority relating to the 2006/07 audit at the end of this letter.

## Use of resources

- 9 We are required to:
- conclude whether the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion; and
  - assess how well the Authority and Force manage and use financial resources by providing scored judgements on the arrangements in five specific areas. This is known as the Police Use of Resources Evaluation (PURE).

## Value for money conclusion

- 10 We have concluded that the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources in 2006/07. We issued our unqualified value for money conclusion alongside our audit opinion on the financial statements on 21 September 2007.

## Review of police data quality

- 11 As part of our work on the value for money conclusion, we carried out a review of police data quality. We considered whether the Authority had proper arrangements in place to secure the quality of key performance data, and whether these arrangements were being applied in practice. A detailed report supporting the assessment and highlighting areas for improvement was issued to the Authority in June 2007. This report was also shared with the Home Office.
- 12 Our review noted that the direction of travel for overall corporate arrangements for securing data quality had deteriorated during 2006/07, although the results of detailed testing of data compliance with the National Crime Recording Standards had improved.
- 13 There is continued commitment from senior officers within the Force to the integrity of crime recording. However, there were a number of weaknesses within the corporate management arrangements that increased the risk to this integrity. Whilst responsibility for data quality has been assigned within the organisation its commitment to achieving data quality was not outlined in any key strategic documents, there was no overarching data quality strategy and it was not cascaded well across the organisation. Accountability and ownership of data quality was not embedded and different parts of the organisation had different levels of understanding and commitment to data quality.
- 14 There is a high standard of decision making in relation to crime and incident data and high standards of compliance with the National Crime Recording Standards. However, there is a risk that these excellent results are unlikely to be sustained unless complemented by equally robust corporate arrangements.

- 15 The Police Authority's arrangements for securing data quality highlighted both strengths and weaknesses. The strengths included identifying a lead member for data quality with the Performance Committee meeting regularly to monitor action plans. However, responsibility for managing and challenging data quality was fragmented across a number of committees and the lead member did not sit on the Performance Committee. The Authority had also risk assessed data quality as a low priority, due in part to previous good audit results in this area. This approach limited challenge to the Force during 2006/07 and deteriorating performance in compliance with the National Standard for Incident Reporting was not picked up at an early stage. The results of our review are summarised in Figure 1.

### Figure 1 Figure 1 Police Data Quality Results

Improvements were noted in data accuracy although there was a deterioration in both corporate arrangements and the role of the Police Authority

	Poor	Fair	Good	Excellent	Direction of travel	
Corporate arrangements					↓	deteriorated
Crime data					↑	Improved
Police Authority role					↓	deteriorated

Source: Audit Commission

- 16 Specific recommendations were made to improve the corporate arrangements and the role of the Police Authority. These were in the areas of development of a data quality strategy, communication of this to the organisation, development and implementation of data quality objectives and targets for staff supported by appropriate training. An action plan to implement these recommendations has been agreed with officers and will be monitored through the corporate database.

## Police activity based costing

- 17 As part of our work on the value for money conclusion we undertook a follow up review of progress on activity based costing (ABC). Our review of the Force's ABC return for 2004/05, which was submitted to the Home office in 2005/06, highlighted that the rate of improvement had been held back notably by a key-skills gap. Although parts of the process were rated 'good' overall data quality was poor mainly due to the lack of a complete audit trail. We further concluded that use of ABC information throughout the force and authority was 'poor'.
- 18 The Force and Authority agreed a seven point action plan to address the weaknesses and to serve as the template for producing the 2005/06 return to the Home Office. All the action points have now been completed and fully implemented. Key action taken to address the data quality weaknesses included:
- providing a complete trail for all data;
  - closely following the Home Office Manual of Guidance; and
  - addressing the key skills gap through collaborative working.

## Police use of resources scores

- 19 We assessed the Authority's arrangements in five areas and scored each area from 1 to 4 (1= inadequate performance, 2 = adequate performance, 3 = performing well and 4 = performing strongly). A detailed report supporting the assessment and highlighting areas for improvement was issued to the Authority in October 2007.

**Table 1 Police use of resources scores**

Element	Assessment
Financial reporting	3 out of 4
Financial management	3 out of 4
Financial standing	3 out of 4
Internal control	3 out of 4
Value for money	3 out of 4
<b>Overall assessment of the Audit Commission</b>	<b>3 out of 4</b>

*(Note: 1 = lowest, 4 = highest)*

- 20 Last year's Use of Resources assessment (2005/06) recorded a good performance by Devon & Cornwall Police Authority across the range of criteria reviewed. Our review this year has confirmed that during 2006/07 the Police Authority and Force has continued to perform well across all of the five themes reviewed and has made significant progress in a number of areas. The key issues arising from the audit, as reflected in the above judgements are summarised below.
- Risk Management continues to receive a high profile within the Force and Authority. The Force and Police Authority risk registers have now replaced the Corporate Assessment Framework process for determining budget priorities. A Post Implementation Review of Risk Management was presented to the Force in January 2007 and later reported to the Corporate Governance Committee on 13 March 2007. The report identified a number of recommendations that linked business risk management more closely with strategic and financial planning, policy making and performance management. Work is now underway on reviewing the existing Risk Management Policy with the aim of producing a joint updated policy that addresses the needs of both the Force and the Police Authority.
  - There is clear and reliable information on costs within the organisation. There is a culture of continuous improvement driven by the need to rebalance resources, enhance performance and meet the challenges of the Force's priorities. Spending is in line with priorities and budgets are developed to deliver against national and local priorities. Development of the Medium Term Financial Strategy (MTFS) has strengthened this.
  - Further efforts have been made to ensure that all reports produced are easily accessible to the public. The reports are produced in a timely manner and can be accessed in a variety of formats and languages on the Police Authority and Force websites.
- 21 Further challenges remaining for the organisation are:
- to identify, assess and monitor the full financial and governance arrangements of the partnerships in place. This will need to be informed by the ongoing national review of regional government and the move towards unitary status in Devon and Cornwall;
  - demonstrate how the financial plans and strategies of the Force and Authority have contributed to the achievement of its policing objectives; and
  - update the organisation's financial management arrangements (financial regulations etc) to ensure that they comply with the statutory 'Financial Management: Code of Practice'.

## **Role of the Police Authority**

- 22** The Police Authority takes an active role in ensuring effective use of resources. In particular there are strengths in the following areas.
- Preparation of the annual budget is an exercise that is ongoing throughout the year. The Member led Budget Working Party meets during the year to discuss ongoing and emerging financial pressures on the Authority. The minutes of this group are then reported to the Resources Committee. The Medium Term Financial Strategy was presented to the full Authority as part of the budget setting process. The Financial Outturn is scrutinised by Members of the Resources Committee and approved by the full Police Authority.
  - The Corporate Governance Committee has responsibility for ongoing development and monitoring of a Code of Corporate Governance, advising on arrangements for risk management policies and reviewing the effectiveness of internal control for the annual Statement on Internal Control. The roles and responsibilities of this Committee are still developing.
  - The Performance Management Committee has responsibility for considering and identifying any issues arising from performance management information requested by the Authority or Committee, or raised on behalf of the Chief Constable, and for monitoring performance against the targets in the Performance Plan. Links with other committees arising from internal control issues are still being developed.

## **Actions for Police Authority members**

- 23** The key actions for police authority members in ensuring a continued focus on effective use of resources are as follows.
- Ensure that the role of the Corporate Governance Committee, the Performance Management Committee and other member committees provide scrutiny and challenge at a strategic level to officers of the Police Authority and Force.
  - Develop the role of the Corporate Governance Committee to enable it to demonstrate that it provides independent assurance and effective challenge leading to improvements in governance and internal control. Members of this Committee should be provided with specific training relevant to their responsibilities.
  - Develop a forward looking programme of meetings and agenda items for the Corporate Governance Committee to ensure comprehensive coverage of all responsibilities in relation to the governance and internal control environment.
  - Provide appropriate Authority Members with training on business risk management awareness and the wider governance framework.
  - Following a review of the committee structure ensure that member roles and responsibilities for scrutinising and challenging performance, risk management and internal control are clearly defined with appropriate reporting links established between these committees.

- Ensure that members are provided with opportunities to review and challenge both good and weaker areas of performance.
- Promote the sharing of any good practice identified both within the Force and externally to ensure consistency in performance and to maximise the benefits to the organisation.

## National Fraud Initiative

- 24 The National Fraud Initiative is a computerised data matching exercise designed to identify overpayments to suppliers and benefit claimants and to detect fraud perpetrated on public bodies. The referrals from the current exercise were released to participating bodies in January 2007.
- 25 We monitor the activity of the Authority in following up the potential fraud matches by reviewing progress throughout the year. The Authority took part fully in this exercise. During the period under review 39 payroll matches and 3203 creditor transactions were investigated. There was no suspicious activity identified and all the matches were satisfactorily resolved.

## Audit of the accounts

### Accounting issues

- 26 We issued an unqualified audit opinion on the Authority's accounts on 21 September 2007.
- 27 Before giving our opinion, we reported to the Corporate Governance Committee acting as 'those charged with governance' on the issues arising from the 2006/07 audit. The most significant item identified during the audit, that required an adjustment to the Balance Sheet, was the actuarial valuation of the pension liability for uniformed staff for past service injury awards. There were no other significant issues that we brought to the attention of the Authority.
- 28 As the Authority faced a significant challenge this year in preparing its financial statements this is a commendable performance. There were major changes in accounting practice required under the 2006 Statement of Recommended Practice (the SORP) together with late notification by the Home Office of accounting treatment of elements of the new police pension fund arrangements.

### Whole of government accounts

- 29 Central government embarked on a programme leading to the preparation of consolidated accounts for the 'whole of government', including local government. The Authority is required to submit a 'consolidation pack' to the Department of Communities and Local Government and the auditor is required to undertake a range of procedures and report on the pack.
- 30 We completed the procedures specified in the pack and submitted the audited version to the Department on 28 September 2007 together with our unqualified audit opinion. There are no issues to bring to the attention of the Authority.

## Closing remarks

- 31 We have discussed and agreed this letter with the Treasurer and the Director of Finance and Resources. We will present the letter at the Corporate Governance Committee on 4 December 2007 and we will provide copies to all Authority Members. The Treasurer will take it to the Full Police Authority meeting on 7 December 2007.
- 32 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Authority during the year.

**Table 2      Reports issued**

<b>Report</b>	<b>Date of issue</b>
Audit plan	May 2006
Review of police data quality	April 2007
Report to those charged with governance	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Use of resources	October 2007
Annual audit letter	November 2007

- 33 The Authority and Force has taken a positive and constructive approach to our audit and data quality work, and we wish to thank officers for their support and co-operation during the audit.

**Alun Williams**  
**District Auditor**

November 2007