
Government and Public Sector
***Leicestershire Police
Authority***

Annual Audit Letter

2010/11 Audit

January 2012



The Members
Leicestershire Police Authority
Police HQ
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13 January 2012

Ladies and Gentleman

We are pleased to present our Annual Audit Letter summarising the results of our 2010/11 audit. A draft of this letter was presented to the members of the Audit and Risk Committee at its meeting on 10 January 2012.

Yours faithfully

A handwritten signature in black ink that reads 'PricewaterhouseCoopers LLP'.

PricewaterhouseCoopers LLP

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In March 2010 the Audit Commission issued a revised version of the 'Statement of Responsibilities of Auditors and of Audited Bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any member or officer in their individual capacity or to any third party.

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Introduction

The purpose of this letter

The purpose of this letter is to provide a high level summary of the results of the 2010/11 audit work we have undertaken at Leicestershire Police Authority that is accessible for Members and other interested stakeholders.

We have already reported the detailed findings from our audit work to ‘those charged with governance’ governance’, which in the case of the Authority has previously been agreed as being the Authority’s Audit and Risk Committee, in the following reports:

- Progress Report – December 2010;
- Audit Plan 2010/11 – March 2011;
- Progress Report – April 2011;
- Progress Report – June 2011; and
- Report on the results of our audit of the 2010/11 financial statements under the requirements of the International Standard on Auditing (ISA) (UK and Ireland) 260 (ISA (UK&I) 260) – September 2011.

Any work undertaken since the September 2011 Audit and Risk Committee meeting is reported in this Audit Letter.

Scope of work

Our audit work is conducted in accordance with the Audit Commission’s Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. As auditors we are responsible for:

- forming an opinion on the financial statements;
- reviewing the Annual Governance Statement;
- forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources;
- considering any questions or objections raised by local electors to the financial statements; and
- undertaking any other work specified by the Audit Commission.

Our 2010/11 audit work has been undertaken in accordance with the Audit Plan that we discussed and agreed with the Audit and Risk Committee at its meeting on 6 April 2011.




We have set out in the rest of this report what we consider to be the most significant matters arising from our audit.

Audit Scorecard

The following scorecard summarises our views across the main areas of our audit using the following key:

Key**Red** – significant improvements required**Amber** – some improvements required**Green** – no or some minor improvements required

Audit Area		Comments
Financial statements		<p>Completion of the accounts on a timely basis, including review by the Director of Finance and Treasurer in advance of the audit, ensured that a good quality first draft of the accounts was available for the audit.</p> <p>Our audit identified no material issues with respect to the quality of the draft accounts presented for audit, though some adjustments to the accounts were requested and agreed.</p> <p>A small number of minor disclosure issues were also identified which were amended appropriately.</p> <p>Working papers were available for audit on time and were of high quality.</p> <p>We issued an unqualified audit opinion on 29 September 2011.</p>
Significant audit and accounting issues		<p>Our audit identified no significant issues.</p> <p>A small number of audit and accounting issues were identified during the audit, the most significant of which are explained later in this Audit Letter. None of these matters were material to the financial statements, either individually or in aggregate.</p>
East Midlands Special Operations Unit (EMSOU)		<p>With respect to EMSOU we were once again requested to share the results of our audit with the auditors to the other police authorities involved. We did not identify any issues during our work on EMSOU.</p>
Whole of Government Accounts		<p>Our work on the Whole of Government Accounts consolidation pack concluded that it was consistent with the financial statements for the year ended 31 March 2011.</p>

Financial standing/Going concern		<p>We concluded that in overall terms the Authority had sufficient resources available to meet its commitments for at least a 12-month period after the date of our audit opinion. We therefore concluded that the use of the going concern assumption was appropriate in the preparation and presentation of the financial statements.</p> <p>The financial position and monitoring report for the seven months to 31 October 2011 highlighted that there is an estimated year-end revenue underspend of £4,204,000 against the agreed budget of £174,601,000 for 2011/12.</p>
Internal Controls		<p>We did not identify any significant deficiencies in Internal Control. Our work identified some minor issues which we discussed with management.</p> <p>We reviewed the Annual Governance Statement to consider whether it complied with relevant guidance and whether it might be misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.</p>
Use of Resources (Value for Money) conclusion		<p>We reviewed documents and information provided by the Authority in order to assess it against the Audit Commission's criteria for ensuring that the Authority had in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>Based on our work we concluded that you had put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. We issued an unqualified use of resources (value for money) conclusion on 29 September 2011.</p>

Audit findings

Accounts

We audited the Authority's Statement of Accounts in line with approved Auditing Standards during June, July and August 2011. We reported the detailed findings from our audit of the financial statements to the Authority's Audit and Risk Committee at its meeting on 6 September 2011 and subsequently to the Police Authority at its meeting on 28 September 2011. We issued an **unqualified audit opinion** on 29 September 2011.

Accounts preparation

At the April 2011 and June 2011 meetings we reported to the Audit and Risk Committee our concerns over the capacity of the Finance Team to meet the challenge of transition to IFRS within the deadlines as follows:

The Authority has a large number of areas to review and work on before producing IFRS accounts for 2009/10 and 2010/11. The Authority does have the expertise and capability to do this but because there is heavy dependence on a small finance team and tight timeframes there are some concerns around this.

Subsequently, the Finance Team **met these deadlines** and produced a quality output.

We worked with the Finance Team to undertake early work on the transition to International Financial Reporting Standards (IFRS) and to provide support to them in determining the treatment of some complex and potentially material areas, such as Investment Properties, Component Accounting and Employee Accrued Benefits. Through a combination of ongoing communication, technical support and early audit work the result was only a few small adjustments to the disclosures in the draft financial statements presented for audit.

Our audit identified **no material issues with respect to the quality of the accounts presented for audit**. Working papers were available for audit on time and were of high quality. Key staff were also available to address any audit queries. The Finance Team responded positively to our audit questions and requests for information.

The Finance Team worked hard to meet the timescales and were helpful in resolving our queries. We would like to thank the Finance Team for their support and assistance during the audit.

Accounting issues

Masterlease

During their review of lease arrangements as part of the transition to IFRS, the finance team identified the arrangement for the lease of vehicles in place with Masterlease. The finance team undertook a review of this arrangement and deemed that under IFRS this should be accounted for as a finance lease.

However, the Authority had not accounted for this arrangement as a finance lease within the draft financial statements for the year ended 31 March 2011. This was principally because of two factors:

- the number of changes in vehicles throughout the life of the lease would make it a complex and time consuming task to account for this arrangement as a finance lease; and
- the arrangement with Masterlease was drawing to a close and the Authority was reducing the number of vehicles under this arrangement.

The Authority provided us with the following information relating to this lease:

Year ended	Total payments in the year	No of Vehicles at start of financial year	No of Vehicles at end of financial year
31 March 2009	83,317.84	91	90
31 March 2010	55,673.25	90	33
31 March 2011	21,603.10	33	16
31 March 2012	7,613.84	16	3

Based upon the information provided above, we concluded that the treatment included in the draft financial statements did not give rise to a material misstatement within the financial statements.

Finance leases at Shepshed and Spinney Hill

Upon transition to IFRS the finance team undertook a review of the arrangements at Shepshed (land and buildings) and Spinney Hill (land only). In both cases the land and buildings had previously been treated as finance leases despite there not being formal lease agreements for the land or buildings at Shepshed. The Authority's assessment determined that all of these arrangements should be accounted for as operating leases under IFRS. However, the Authority did not amend the treatment within the 2010/11 financial statements in line with IFRS transition requirements.

The effect of an adjustment would have been to remove assets from the Balance Sheet totalling £110,000 included in Tangible Fixed Assets and £97,800 included in Assets Held for Sale. The effect of depreciation and any revaluations would also need to have been removed as though the land and buildings had never been included in assets.

In addition, in order to appropriately reflect as operating leases the initial amounts paid would need to have been treated as a lease premium at the date of inception and spread across the length of the lease in the Comprehensive Income and Expenditure Account. This would have equated to an annual charge of £6,720.

As the above adjustments were not considered to be material, the Authority decided not to amend the financial statements for 2010/11. Based upon the information provided above, we concluded that the treatment included in the draft financial statements did not give rise to a material misstatement within the financial statements.

Furthermore, Shepshed was shown in the financial statements as an Asset Held for Sale; the intention being that the Authority would dispose of the asset during 2011/12 and there would then be no requirement for the Authority to make the adjustments indicated above.

Unadjusted misstatements

Excluding the misstatements relating to Masterlease and the finance leases at Shepshed and Spinney Hill referred to above, our audit identified a small number of unadjusted misstatements. If these had been adjusted for they would have resulted in an increase to the Authority's net assets of £42,000. After considering our ISA 260 report, the Authority's Audit and Risk Committee **decided not to adjust the financial statements for the unadjusted items on the grounds that they were not material, either individually or in aggregate, to the truth and fairness of the accounts. We considered the qualitative and quantitative aspects of the unadjusted items and concluded that, if they remained unadjusted, this would not adversely impact on our audit opinion.**

East Midlands Special Operations Unit (EMSOU)

The Authority is the lead body for the East Midlands Special Operations Unit (EMSOU). The transactions for EMSOU are accounted for under International Financial Reporting Standard (IFRS) 31 as a Joint Arrangement Not an Entity (JANE). As well as accounting for its contribution and share of the assets and liabilities the Authority prepares the key financial statements for the Unit as a whole. These “group” accounts are shown as a disclosure note in the Authority’s accounts.

We did not identify any issues during our work on EMSOU.

With respect to EMSOU we were requested to share the results of our audit with the auditors to the other police authorities involved. The Treasurer to the Police Authority has previously agreed that we can share information relating to our work on EMSOU with other relevant auditors.

Whole of Government Accounts

We undertook our work on the Whole of Government Accounts consolidation pack as prescribed by the Audit Commission. The work was completed and the audited pack was submitted on 29 September 2011 in line with the national deadline for submission. Our work on the Whole of Government Accounts consolidation pack concluded that it was **consistent with the financial statements** for the year ended 31 March 2011.

Financial standing/Going concern

Financial standing/Going concern

The Authority is responsible for ensuring that it has arrangements in place to secure its financial standing. One of our key responsibilities as auditors is to fully consider the financial standing of the Authority.

Where there are significant doubts as to the Authority’s ability to meet its statutory financial duties we are required to take appropriate steps to ensure that the Authority’s accounts fully reflect such matters and to draw any concerns in relation to financial standing to the attention of management, the Audit and Risk Committee and in certain circumstances, to external parties.

We concluded that in overall terms the Authority had sufficient resources available to meet its commitments for at least a 12-month period after the date of our audit opinion. We therefore concluded that the use of the going concern assumption was appropriate in the preparation and presentation of the financial statements.

Current year position

The financial position and monitoring report for the seven months to 31 October 2011 highlighted that:

- there is **an estimated year-end revenue underspend of £4,204,000 against the agreed budget of £174,601,000; and**
- the areas which have led to the most significant savings against budgeted costs are: an increased number of leavers and funded posts resulting in a saving of £1,996,000 against budgeted payroll costs; and Forensic Services savings of £858,000 arising from new procurement arrangements and more stringent referral procedures.

We will continue to monitor the Authority’s financial resilience and performance against budget and against its savings plans as a routine part of our 2011/12 audit procedures.

Internal Controls

Accounting systems and systems of internal control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. We review these arrangements for the purposes of our audit of the financial statements and our review of the Annual Governance Statement. **There are no matters which we wish to bring your attention.** Our work has identified a small number of recommendations and minor compliance issues which we have discussed with management.

Annual Governance Statement

Local authorities are required to produce an Annual Governance Statement (AGS) that is consistent with guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE). The AGS accompanies the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA/SOLACE guidance and whether it might be misleading or inconsistent with other information known to us from our audit work. **We found no areas of concern to report in this context.**

Use of Resources

Economy, efficiency and effectiveness

Our Use of Resources Code responsibility required us to carry out sufficient and relevant work in order to conclude on whether you had put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

In accordance with guidance issued by the Audit Commission, in 2010/11 our conclusion was based on two criteria:

- the organisation has proper arrangements in place for securing financial resilience; and
- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Unlike in previous years, we were not required to reach a scored judgment in relation to these criteria and the Audit Commission did not develop 'key lines of enquiry' for each criteria. Instead, we determined a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

Summary of findings

Our main findings can be summarised as follows:

- The Authority is facing a significant challenge around reducing costs over the next few years as a result of the Government's comprehensive spending review (CSR) and the indicative police grant figures. The Authority needs to identify £13.5 million of sustainable savings from 2014/15 onwards, based on current assumptions for funding, which may change over time.
- The Authority has a good track record of identifying efficiency savings. Efficiency savings targets have been exceeded for the period 2008/09 to 2011/12.
- Initial work had been performed on identifying specific areas for potential future savings. The Authority intends to ensure that the potential impact on service delivery is minimised as much as possible. The most recent HMIC inspection highlighted the commitment the Authority has given to protect visible policing and prioritise service delivery to the public.

- The Authority closely monitors performance against targets for areas including confidence and satisfaction, promoting safety, organisational management, serious crime and protection, tackling crime and local objectives.
- Performance monitoring will be particularly important as the Authority makes savings, to ensure objectives are being met and areas for concern are identified and actions taken as soon as possible to rectify any deteriorating performance.
- Overall there are clearly challenges ahead. However, from reviewing the arrangements in place for both financial resilience and challenging economy, efficiency and effectiveness it was clear the Authority was making progress in managing the impact of the CSR and focusing on ensuring service and performance is maintained in key areas.

Conclusion

Based on our work we concluded that you had put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. We issued **an unqualified use of resources (value for money) conclusion** on 29 September 2011.

Electors' questions or objections

We received no questions or objections from local electors relating to the 2010/11 financial statements.

