

Government and Public Sector

Leicestershire Police Authority

2009/10 Annual Audit Letter

January 2011

The Members
Leicestershire Police Authority
Headquarters
St Johns
Enderby
LE19 2BX

28 January 2011

Ladies and Gentlemen

We are pleased to present our Annual Audit Letter summarising the results of our 2009/10 audit. A draft of this letter was presented to the members of the Police Authority at your meeting on 25 January 2011. We would like to thank all those members and staff with whom we have had contact for their help and assistance throughout the course of our work during 2009/10.

Yours faithfully



PricewaterhouseCoopers LLP
Encs

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

The 'Statement of responsibilities of auditors and of audited bodies' issued by the Audit Commission in April 2008 applies to our 2009/10 audit of Leicestershire Police Authority under the Code of Audit Practice for Local Government Bodies issued by the Audit Commission in July 2008. A copy of the statement is available from the Treasurer of Leicestershire Police Authority. 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 expected of the audited body in certain areas. Our reports and letters are prepared in the context of this Statement and the Code of Audit Practice. 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.

Contents

Section

Introduction 4

Audit findings 5

Matters for future accounting periods 10

Introduction

The purpose of this letter

The purpose of this letter is to provide a high level summary of the results of the 2009/10 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, which for the Police Authority has previously been agreed to be the Authority's Audit Committee, in the following reports:

- External Audit Update Reports: March 2010, May 2010, September 2010 and November 2010;
- our report on the results of our audit of the 2009/10 financial statements under the requirements of the International Standard on Auditing (ISA) (UK and Ireland) 260 issued in September 2010; and
- our audit opinion on the 2009/10 financial statements, incorporating our conclusion on the Authority's use of resources.

The matters reported here are those that we consider are most significant for the Authority. We also provide an annual summary of recommendations to the Treasurer and his team.

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 financial statements, including 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 Authority's 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; and
- undertaking any other work specified by the Audit Commission.

Our 2009/10 audit work has been undertaken in accordance with the Audit Plan that we presented to the Authority's Audit Committee at its meeting on 18 March 2009.

Audit findings

Accounts

We audited the Authority's accounts in line with International Standards on Auditing (UK & Ireland) and issued an unqualified audit report on 23 September 2010.

Set out below is a summary of our findings from performing our audit of the Authority's 2009/10 accounts:

Unadjusted misstatements and adjusted misstatements

- A small number of misstatements which we identified during our audit were not adjusted by the Authority. These were reported to the Audit Committee, in its capacity as those charged with governance, however, we were satisfied that none of these misstatements represented a material weakness in internal control or adversely impacted on our ability to sign an unqualified audit opinion on the financial statements.
- The two largest unadjusted misstatements related to Pension Scheme Liability (£57,000) and Council Tax Adjustments (£255,000); both had arisen as a result of information which is provided to the Authority by Leicestershire County Council. In both cases, the Authority was informed of adjustments to the information after the draft accounts had been produced.
- There were no significant adjusted misstatements which had been corrected by management which we considered needed to be reported to the Authority's Audit Committee in fulfilling its governance responsibilities. The adjustments had no impact on the reported surplus of the Authority.

Valuations

- The Authority included a Prior Period Adjustment in the financial statements relating to a change in the basis of valuation of a number of properties owned by the Authority.
- In the previous year's financial statements for the period to 31 March 2009, the Authority treated all property as specialised assets and valued them on a Depreciated Replacement Cost basis on the advice of the Authority's Valuer as at 22 April 2009. Due to a change in the Valuer's interpretation of the categories of properties as stated in the Royal Institute of Chartered Surveyors (RICS) Red Book, a number of police stations had been re-categorised as non-specialised assets in the valuation provided on 29 January 2010. This valuation was also based on the values as at 31 March 2009. Non-specialised assets had been valued on the basis of market value.
- The impact of this change was to reduce the carrying value of the assets by £27 million in the prior year, which is the period to 31 March 2009. The Authority included additional disclosures in the financial statements to explain to the reader of the accounts that this adjustment had been included as a prior period adjustment on the basis that in the Authority's view this was a change in accounting policy. Whilst we were not persuaded that this was in fact a change in accounting policy we did accept the Authority's accounting treatment as a prior period adjustment, with suitable additional narrative disclosures, in an effort to enhance the comparability of the relevant figures in the respective financial statements.

EMSOU

- The Authority is the lead body for the East Midlands Special Operations Unit (EMSOU). The transactions for EMSOU are accounted for under Financial Reporting Standard (FRS) 9 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.
- 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. The Treasurer to the Police Authority had previously agreed that we can share information relating to our work on EMSOU with other relevant auditors. Our audit work on EMSOU did not identify any issues that required reporting to the Police Authority or to the auditors to the other police authorities involved.

Pensions’ estimate

- The largest estimate included in the financial statements was for pension liabilities in respect of employees who are members of the Leicestershire Local Government Pension Scheme (LGPS) and the Police Pension Scheme. The net pensions liability at 31 March 2010 was £1,398 million of which £1,247 million related to the Police Pension Scheme. This represented an increase of £471 million on the previous year. The Police Pension Scheme is unfunded in nature and hence has no scheme assets.
- The Government announced in June 2010 that it will move to the use of the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) as the measure of price inflation for public sector pension schemes. This decision is likely to result in significant reductions in the Financial Reporting Standard (FRS) 17 liabilities recognised in the accounts of most local authorities because CPI is typically lower than RPI. The impact of this change (estimated for the Authority to be between £66 million and £99 million decrease for the Police Pension Scheme and between £9 million and £12 million decrease for the LGPS) was disclosed in the accounts as a Post Balance Sheet Event for information.
- Current indications are that an increased level of employee and employer contributions may be needed across the sector to make up scheme shortfalls. The extent of any contributions increase will depend on the magnitude of the shortfall and the period over which it is recovered. Decisions concerning the recovery period should take into account prudence and the likelihood that longer recovery periods will increase the real cost to the scheme and employer.

Other Matters

- The financial statements and the supporting schedules were presented to us for audit within the agreed timetable. The working papers produced to support the financial statements were of a good standard.
- We identified no material weaknesses in the Authority’s accounting and internal control systems during our audit.
- We noted no material uncertainties related to events and conditions that cast significant doubt on the Authority’s ability to continue as a going concern.
- We received no electors’ questions or objections in relation to the 2009/10 financial statements.

Financial Standing

You are responsible for ensuring that the Authority has arrangements in place to secure an adequate financial standing. The Authority recognises that this will be increasingly challenging over the medium term. The announcement of the Comprehensive Spending Review in October 2010 has clarified the situation in relation to the funding position faced by all public sector bodies.

We noted in our report on the results of our audit of the 2009/10 financial statements referred to earlier that you had already taken some positive steps to respond to this challenge. These included:

- Developing an updated Medium Term Financial Strategy for the period 2011 to 2015;
- Setting a savings target of £15 million by 2011/12, of which over £13 million had already been achieved (and the remainder has subsequently been achieved);
- Including prudent estimates within calculations (for example including 25% reductions in funding in the updated Medium Term Financial Plan); and
- Performing sensitivity analysis of the Medium Term Financial Strategy in order to model the potential impact of various scenarios on the Authority's finances.

You recognise that your Medium Term Financial Strategy is dependent upon delivering against your savings targets, maintaining sound financial management and keeping to budgets in spite of service pressures and that there are likely to be tough decisions to be made on services. You are expecting to approve a balanced budget for 2011/12 but the grant settlement announcement means that the funding gap is now £8.6 million for 2012/13, £14.2 million for 2013/14 and £19.4 million for 2014/15, which represents a significant challenge for the Authority.

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 2010 in order to meet the deadline of 1 October 2010. Our work on the Whole of Government Accounts consolidation pack concluded that it was consistent with the statement of accounts for the year ended 31 March 2010.

Comprehensive Area Assessment

Following the Government announcement to abolish comprehensive area assessment (CAA), all work on Use of Resources for CAA ceased at the end of May 2010. Therefore, this work was not completed as originally planned. However, we provide below a summary of the significant findings from our Use of Resources work that was completed before the Government's announcement.

Managing Finances

Strengths

- A 3-year Medium Term Financial Plan was in place which had been presented to the Authority. (We are aware that this has subsequently been updated to cover a longer period). A detailed budget analysis sits behind the MTFP. The Authority had performed some modelling of different scenarios for the future and discussed these with members. The Authority identified £4.7 million of cashable savings in 2009/10. The Authority was ahead of the Home Office target of finding savings of £18 million over 3 years at the time we ceased our work.
- The Authority had done a considerable amount of work in the 2009/10 year regarding understanding its costs and cost drivers. Benchmarking and detailed reviews had been undertaken regarding Fleet, Estates, IT and Workforce costs, following which a number of changes were made which resulted in cashable savings in 2009/10.

- The Authority had introduced a Mobile Data Project. For 2009/10 the Force saved £975,000 based on the nationally recognised time saving of 45 minutes per officer shift. This project covered all five East Midlands forces and was a result of a successful bid through the East Midlands Collaboration Programme.

Areas for Development

- The IFRS balance sheet restatement exercise was not completed prior to the December 2009 timeline outlined by CIPFA but had been completed subsequently.

Governing the Business

Strengths

- The Authority continued to procure over 80% of its contracts jointly. The Authority demonstrated excellent collaborative working to ensure efficiencies were obtained.
- The Authority had demonstrated innovation in using a Domestic Violence Survey; it is believed that this was the first such survey to be undertaken in the country by police forces. It was also discussed in internal and external domestic abuse forums. The results showed that there were high satisfaction levels with the service. However, the Authority was still using the results proactively to pick up any gaps in service. An example of this would be in relation to witness care in the interim period of cases that transfer from the magistrates to the crown courts.
- Leicestershire had an Information Management Advisory Group which was attended by the local authority, NHS, Fire Service, Probation and Police representatives. The Group had produced a Data Quality Strategy which included data quality relating to the personal information held by the partner agencies as well as the management information. The Information Management Advisory Group had also produced an Information Sharing Protocol which was signed by 43 organisations in the county.
- The Authority had an extranet which could be used by members to access relevant information on their committee responsibilities. This was a computer network that was password protected which members could access from the different police authorities across the region. This meant that best practice could be shared along with consultative documents.
- Internal Audit provided 'substantial assurance' across the majority of reviews in 2009/10.
- The Orchid electronic risk management system was being examined by the other East Midlands forces looking to adopt a collaborative deployment across all the forces. The outcome from this was that the 5 East Midlands Forces' Risk Managers meet regularly to monitor cross-cutting risks across the region.

Areas for Development

- We did not identify any specific areas for development.

Managing resources

Strengths

- Half-hourly metering was in place at the larger sites and the Authority had access to a web portal provided by its electricity supplier, where data on the consumption of the six half hourly metered sites was readily available. The Authority had installed sub-meters to all individual buildings at Force Headquarters to provide more disaggregated data on usage. The Authority now has access to current and historic electricity accounts on a web portal. This option was also being explored with the Authority's gas supplier. The Authority's gas and electricity consumption were both being monitored by an external consultant and the Carbon baseline was fed by data on the Force's transport footprint.

- The Authority had a lead member on environmental matters, a Strategic Infrastructure Board chaired by the Finance Director with Authority attendance and assigned operational roles.
- The Authority had delivered or planned a large number of wide-reaching initiatives that should lead to a reduction in resource usage focussed on areas where they can have the greatest impact.

Areas for Development

- In relation to 'Managing Performance to reduce impact on the environment', the Authority was developing a strategy in a piecemeal manner and the Strategy was a combination of an Environment Procedure, an Action Plan (that was kept up to date for status progress) and approved targets. The organisation was aware of the need to incorporate the elements into a wider Strategy document that covers all these areas as well as others such as procurement, travel, staff engagement, climate adaptation planning and more.
- In relation to 'Understanding and Quantifying Resources', the Authority had baseline information for all material energy sources and waste. In order to demonstrate improvement the Authority should be able to show a trend reducing over time.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS) which is consistent with guidance issued by the Chartered Institute of Public Finance (CIPFA) and the Society of Local Authority Chief Executives (SOLACE). The AGS was included in the financial statements.

We reviewed the AGS to consider whether it complied with the CIPFA/SOLACE guidance and whether it was misleading or inconsistent with other information known to us from our audit work. The AGS was expected to include either:

- a confirmation that the Authority's financial management arrangements conform to the CIPFA Statement; or
- an explanation of why they do not and how the Authority delivers the same impact.

The Authority did not include this in the AGS. As auditors, we were not required to report on this aspect of the AGS for 2009/10. We reviewed the AGS to consider whether it complied with the CIPFA/SOLACE 'Delivering Good Governance in Local Government' framework and whether it was misleading or inconsistent with other information known to us from our audit work. Other than the point noted above, we found no areas of concern to report in this context.

Conclusion on Use of Resources

The Audit Commission publishes Code of Practice criteria on which auditors are required to reach a conclusion on the adequacy of an audited body's arrangements for economy, efficiency and effectiveness in its use of resources. The criteria are linked to Key Lines of Enquiry (KLoEs). In reaching this conclusion in 2009/10, we had regard to:

- work performed on the Key Lines of Enquiry (KLoEs) specified by the Audit Commission as underpinning the Value for Money conclusion. This included Use of Resources assessment work undertaken to the end of May 2010 as referred to earlier; and
- a review of the Annual Governance Statement.

We issued an unqualified conclusion on the Authority's arrangements for its Use of Resources on 23 September 2010.

Matters for future accounting periods

Transition to International Financial Reporting Standards (IFRS)

The Code of Practice on Local Authority Accounting in the United Kingdom 2010 will apply to next year's financial statements. The new Code is the first to be prepared under IFRS.

The Authority needs to ensure that it has a good grasp of the changes to accounting requirements under the new Code. The Authority should now have systems in place to collect and process the information needed to prepare IFRS based accounts and should at this stage be progressing well with preparation of comparative information as at 31 March 2010/1 April 2010 for next year's financial statements.

Our early work on the 2010/11 financial statements indicates that progress with IFRS transition is in line with the Authority's planned timetable.

In our experience the key features of a successful IFRS conversion project have proven to be:

- completed impact analysis and comprehensive conversion plans;
- the commitment of key stakeholders in the organisation;
- operational steering and technical groups;
- Authority/Audit committee oversight;
- regular progress reporting against the plan;
- the necessary project management resources; and
- appropriate and timely training for all members and officers with IFRS involvement.

Clarity International Standards on Auditing (UK & Ireland)

We will be required to apply Clarity International Standards on Auditing (ISAs) for UK and Ireland to next year's accounts audit for the first time.

The Clarity ISAs overhaul existing auditing standards, both improving clarity of existing standards and introducing new requirements designed to improve audit quality and financial reporting.

A number of standards have been completely revised. There will be approximately one-third more explicit requirements in the standards applying to our audit next year. The actual impact on cost of the audit will depend on a variety of factors, including how effectively we can work with you to obtain additional information needed to enable us to perform the required procedures.

