

Annual Audit Letter

Hampshire Police Authority

Audit 2008/09

December 2009



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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. 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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Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the 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. It also looks forward to emerging issues.

Audit opinion

- 1 I issued an unqualified opinion on the Authority's financial statements on the 30 September 2009.
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Financial statements

- 2 The arrangements for production of your financial statements are satisfactory and the financial statements provided for audit were of a reasonable quality. As part of my audit I did identify a number of errors, one of which was material to the accounts. This and the other errors identified were subsequently corrected by management.
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Value for money

- 3 I concluded that in all significant respects, the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources, across each of the areas of my assessment for the year ending 31 March 2009.
 - 4 In my Use of Resources assessment, I concluded that the Authority and the Constabulary scored 3 out of a maximum of 4. This means that the organisation is performing well; that I have no significant concerns over the arrangements put in place by the organisation; and that those arrangements meet established professional practice and guidance and are operating effectively.
 - 5 I have highlighted strengths in the Constabulary's approach to the management of its day to day finances, the extent to which a good understanding of the organisation's costs has enabled the Constabulary to achieve efficiencies during the year and good practice in planning, organising and managing the organisation's workforce.
 - 6 I have also identified areas that I believe have scope for further improvement. These include:
 - embedding improvements in data quality and achieving greater consistency in data recording; and
 - developing risk management arrangements to ensure these address the major risks facing the Authority; Constabulary and in relation to key partnerships.
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- 7 I have recommended that the Authority look at the potential areas for improvement I have identified, and develop an action plan that takes these forward linked to its key priorities.

Audit fees

- 8 The table below sets out the comparison of actual to planned fees for 2008/09.

Table 1 **Audit fees**

	Actual	Proposed	Variance
Financial statements and annual governance statement	£71,800	£71,800	0
Value for money	£41,500	£41,500	0
Total audit fees	£113,300	£113,300	0
Non-audit work	0	0	0
Total	£113,300	£113,300	0

Emerging issues in 2009/10

- 9 Looking forward, the medium term financial prospects for the Constabulary are challenging and the Authority and the Constabulary need to ensure that a realistic and achievable financial plan is in place to close the increasing gap between expenditure and resources forecast in the updated medium term financial strategy.
- 10 My initial enquiries into the purchase of the Alpha Park site have established that the Authority made a decision to purchase the site which is not occupied 18 months later whilst recent costings prepared as part of a feasibility study show that the development of the site will cost more than originally estimated. At the date of this letter I am considering two key questions in connection with the project and I will produce a separate report at the conclusion of my work. However, in the meantime, I know that the Authority is undertaking a feasibility study on the options for the site and received a report at its meeting of the 24 November 2009 at which it decided that more time was required to explore the issues further in order to proceed to a full business case.

Actions for members arising from the 2008/09 audit

- 11 Areas highlighted for action on the part of the Authority or the Constabulary referred to within the body of this letter are covered by recommendations in detailed reports which have been previously agreed with the audited body. Members will want to monitor the implementation of agreed actions by officers.

Key messages

Actions on emerging issues in 2009/10

12 I would highlight the following areas for members' attention.

- The Authority managed its finances well in 2008/09 and recovered the overspend it incurred in the previous year. However, the Authority's own estimates show a worsening financial forecast over the three years from 2010/11 to 2012/13. Members should ensure that financial management and the restoration of financial balance over the period of the three-year medium term financial strategy remains a key Authority priority.
- Members need to carefully scrutinise the outcome of the feasibility study on the new HQ project and the full business case when it becomes available and to make sure they have the full information they require in order to arrive at a decision that will minimise the financial impact going forward and will deliver the Authority's priorities.

Independence

13 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Financial statements and annual governance statement

The Authority's financial statements and annual governance statement are an important means by which the Hampshire Police Authority accounts for its stewardship of public funds.

Significant issues arising from the audit

- 14 I have completed the audit of the Authority's accounts for 2008/09. Details of my findings were summarised within the Annual Governance Report presented to the Governance Committee on 24 September 2009. I issued an unqualified audit opinion on the accounts on 30 September 2009.
 - 15 The majority of items which we raised from the audit related to the way things were presented in the notes to the accounts, and the errors identified had no impact on the net cost of services of the Authority. However, there was one material error identified by the audit in that the Police Pension Top-up Grant of £20.6m was not correctly disclosed in financial statements. This was purely a presentational error which management has corrected.
 - 16 As your auditor, I am also required to report on your 'whole of government account consolidation pack'. I reported on 1 October 2009 that in my opinion the pages of the consolidation pack are consistent with the statement of accounts for the year ended 31 March 2009 on which I have entered my opinion in accordance with section 9 of the Audit Commission Act 1998.
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Material weaknesses in internal control

- 17 I did not identify any significant weaknesses in your internal control arrangements except that the Authority needs to establish arrangements whereby it routinely gains assurances over the control environment of its pension provider, Xaffinity. Assurances were obtained in support of the figures contained in the 2008/09 accounts by special enquiry this year at my request rather than through standing arrangements on the part of the Authority. I have made recommendations for improvement in controls to officers.
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Accounting Practice and financial reporting

- 18 I considered the qualitative aspects of your financial reporting. There were no matters arising which I consider significant enough to be repeated here.

Progress towards implementing International Financial Reporting Standards

- 19 Local authorities, including Police Authorities are required to prepare their financial statements under International Financial Reporting Standards (IFRS) for the first time from 2010/11. The transition from the current basis of reporting under UK GAAP to IFRS requires a long lead in time and it is important that authorities make early preparations for the implementation of IFRS.
- 20 I have reviewed the Authority's arrangements and can report that preparations are in hand and progress against the project plan is currently on track.

Value for money and use of resources

I considered how well the Authority is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Authority put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 21 The new UoR assessment framework is more demanding than the previous assessment. It is broader in scope and embraces wider resource issues such as people and workforce planning. It also places more emphasis on considering outcomes for local people. It is particularly important to recognise that the KLOE are more strategic and focus much more explicitly than previously on value for money achievements than on processes.
- 22 In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 23 I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 24 The Use of Resources scores for the Authority are shown in Table 2 below. I have previously issued a detailed report on my assessment which I presented to the Authority Board on 17 November 2009.

Table 2 Use of resources scores

Use of resources theme	Scored judgement
Managing Finances	3
KLOE 1.1 - Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	3
KLOE 1.2 Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	3
KLOE 1.3 - Is the organisations financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	2

Value for money and use of resources

Use of resources theme	Scored judgement
Governing the Business	2
KLOE 2.1 - Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	3
KLOE 2.2 - Does the organisation produce relevant and reliable data and information to support decision-making and manage performance?	2
KLOE 2.3 - Does the organisation promote and demonstrate the principles and values of good governance?	3
KLOE 2.4 - Does the organisation manage its risks and maintain a sound system of internal control?	2
Managing Resources	3
KLOE 3.1 - Is the organisation making effective use of natural resources?	Not applicable in 2008/09
KLOE 3.2 - Does the organisation manage assets effectively to help deliver its strategic priorities and service needs?	Not applicable in 2008/09
KLOE 3.3 - Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?	3

Overall conclusion

- 25** The Authority and the Constabulary have improved in some aspects of their arrangements for securing economy, efficiency and effectiveness in the use of resources since my assessment last year. In particular the Constabulary has strengthened financial management at all levels within the organisation and has delivered an ambitious programme of efficiency savings achieved through a good understanding of its costs and priorities and driven by decisive action on the part of management.
- 26** In overall terms our assessment this year reflects well upon the Authority and the Constabulary as the organisation overall has maintained its level 3 score against a tougher and more demanding assessment methodology, performing well in relation to management of its finances and the management of its workforce. We have identified some areas for improvement but in the main the challenge for the organisation will be to sustain this level of achievement in the challenging period ahead.

Managing finances

- 27** Financial and corporate planning processes are well aligned. For 2008/09 the restoration of financial balance was a key priority following a significant overspend in 2007/08. Financial disciplines were strengthened, budgets and spending plans were reviewed and a heightened profile given to financial management both at operational command unit and corporate level. The Constabulary met its financial targets for the year whilst largely maintaining standards and quality of service.
- 28** The organisation has also consulted widely with resident groups, businesses and others stakeholders as part of its budget cycle which has helped inform its priorities and allocation of its financial resources notwithstanding the pressing financial pressures with which it was faced during the year.

- 29 The Constabulary has a good understanding of its costs and uses this information to monitor and manage the use of its resources. Comparisons are made to other most similar constabularies to identify opportunities for improved performance and the re-allocation of resources.
- 30 Costs appeared to be mostly at the median or lower level with performance showing continuing and sustainable improvement. Where spending was higher than the median, this was generally in areas reflecting the Constabulary's priorities as outlined in the Strategic Plan and the result of conscious investment decisions.

Governing the business

- 31 Arrangements to govern the business of the organisation are in place and are generally effective, with some good examples of their application across the Authority and the Constabulary. There is a clearly articulated vision for the Constabulary, focusing on a streamlined and less bureaucratic organisation that will support service delivery to local communities and reduce crime, which is informed by good engagement and consultation with all sections of local communities.
- 32 The Constabulary is developing a more integrated approach to information management, including joint information sharing, with clear and continuing leadership. Improved management information and more reliable data quality are supporting better performance monitoring and management at Authority and Constabulary levels but ongoing action is required to promote the profile and importance of data quality across the organisation and ensure greater consistency in the recording of crime statistics.
- 33 The Constabulary proactively promotes a strong ethical culture and the achievement of high standards of conduct. Both the complaints and confidential reporting procedures are clearly communicated and accessible to staff on the internet and intranet respectively. Good training arrangements are in place for both Members and staff covering induction, briefings on current developments and e-learning.
- 34 Risk management arrangements are in place within the Constabulary and, to a more limited extent, within the Authority. There is still some inconsistency in their application across OCUs; in relation to the major risks associated with the delivery of innovative and challenging projects and the extent to which risk management is applied to partner organisations
- 35 Anti fraud and corruption arrangements have improved with the establishment of an Anti Corruption Unit. However, there is still mixed awareness of counter fraud and corruption across the Constabulary and no specific training provided outside of general misconduct and integrity training.

Managing resources

- 36 Overall the Constabulary is managing its workforce effectively. The People Strategy 2009-2012 integrates training, recruitment and people management in a cradle to grave approach. It concentrates on outcomes and makes clear links between the people development plan and the Constabulary development plan. The Constabulary is developing its approach to succession planning to ensure it has the right skills to do the job.

Value for money and use of resources

- 37 The Authority and the Constabulary are well engaged, knowledgeable and challenging on equality and diversity issues and the Constabulary is currently second in the Stonewall Index (national benchmarking exercise showcasing Britain's top employers for diverse staff) The Constabulary has effective systems in place to manage sickness absence and with 3.5 per cent sickness rate for police officers and 4 per cent for police staff, has the lowest sickness rate of other police forces with similar characteristics.
- 38 Although leadership development includes some aspects of partnership working, the Constabulary recognises that it needs to improve skills training for effective partnership working and this is in hand.
- 39 In other areas there are opportunities for improvement. For example, although there are many aspects of good practice in the organisation's approach to developing its workforce there is not the means to readily track the fulfilment of personal development needs and to assess the effectiveness of training. In our view decision-making on workforce issues would be better supported if integrated finance and workforce data was made available to managers.

VFM Conclusion

- 40 I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. For 2008/09 the Audit Commission specified the use of resources KLOE for the Authority which are set out in table 2 above as the relevant criteria for the VFM conclusion at the Authority.
- 41 Where the scored judgement is 2 or above, I conclude that the VFM criteria has been met. Therefore, as the Authority scored 2 or more in all categories I issued an unqualified conclusion stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Emerging issues in 2009/10

Economic downturn and medium term financial prospects

- 42 My work has reflected on the wider environment, specific issues and risks and the Authority's response to the economic downturn and banking crisis which impacts on the audit and as part of my responsibility. This downturn is having a very significant impact on public finances and the bodies that manage them, and there are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams.
- 43 Specifically in relation to the Police Authority, there is an expectation that the recession will give rise to more criminal activity thereby placing additional demands on relatively fixed police resources; the Authority's capital programme is affected by reduced opportunities to generate funding through asset sales which in term results in the need for greater borrowing and increased financing costs all set against a background of limited growth in general revenue and specific grant funding.

- 44 The Authority's refreshed medium term financial strategy, reported to the September meeting of the Finance Committee presents a daunting picture of the Authority and the Constabulary's financial prospects over the medium term. The forecast out-turn for 2009/10 remains broadly on track, which reflects well on the financial disciplines recently introduced by the Constabulary but there is an ever widening gap between the cost of maintaining current service levels and the estimated funding streams, with a forecast deficit of £2.1m in 2010/11; £6.4m in 2011/12 and £10.8m in 2012/13.
- 45 These are early indicators of a serious underlying financial problem as unless efficiencies can be found, difficult choices will need to be taken on what can and cannot be afforded within tightening budgetary constraints. There is no 'quick fix' and the Authority needs to look towards more radical solutions than may have been considered in the past.
- 46 In the current year the Authority has switched from the traditional incremental basis of budget setting for non-pay expenditure in 2010/11 to one more akin to 'zero based' budgeting. It is hoped that this will identify opportunities for savings that can be fed into the efficiency and productivity review programme which in turn will lead to reduced costs and ease budget pressures. It also reintroduced the 'Budget Gold Group' that played a key part in resolving the 2008/09 financial problem and the Efficiency and Productivity Team, established to manage the efficiency strategy, has recently been strengthened.
- 47 The clear message is that on the basis of the current forecasts the Authority will not be able to maintain current levels of expenditure let alone fund growth within the predicted resource levels and difficult choices will need to be made but made on the basis of good and reliable information and with an eye to the future. Remedial action cannot be solely reliant on short term fixes and non-recurrent savings plans and must be viewed strategically over a longer term planning horizon.
- 48 A realistic solution to achieving sustained financial balance needs to be developed and implemented at the earliest opportunity and I urge that in the period ahead Members keep this as one of their key priorities. I will be keeping the Authority's progress under review as part of my ongoing audit and in particular my use of resources assessment next year.

Affordability of the capital programme

- 49 The Authority has not had a major capital programme in recent years, however, it is now delivering two significant projects - a new building for the Southampton Operational Command Unit estimated at over £38m over five years and a Police HQ replacement programme initially estimated at over £26m. As part of my 2009/10 audit I am in the process of undertaking a review of:
- the effectiveness of the financial management of these projects, as the funding will have a significant effect on the Authority's medium term financial strategy which is now showing a funding gap of £8.9m in 2013/14; and
 - how these assets are being used to help the Authority to deliver its strategic priorities and service needs, as this area will be assessed for the first time in 2010/11 under the Audit Commission's Use of Resources assessment and will impact on our value for money conclusion.

Value for money and use of resources

- 50** My initial work on the Alpha Park site has established that the Authority made a decision to purchase the site which is not occupied 18 months later. Recent costings prepared as part of a feasibility study show that the development of the site will cost more than originally estimated. I am now completing my assessment of how the Authority arrived at its decision to buy the site and, looking forward, the action the Authority is now taking and whether it doing enough to arrive at a value for money solution.
- 51** I will produce a separate report at the conclusion of my work. However, in the meantime, I know that the Authority is undertaking, with the support of consultants, a feasibility study on the options for the site and received a report at its meeting of the 24 November 2009 at which it decided that more time was required to explore the issues further in order to proceed to a full business case. The Authority has also employed consultants to support it in making decisions on its strategic investment and to obtain independent advice on any planning issues.
- 52** I would urge Members to carefully scrutinise the outcome of the feasibility study and the full business case and to make sure that they have the full information they require in order to arrive at a decision that will minimise the financial impact going forward and will deliver the Authority's priorities.

Treasury management

- 53** The treasury management function is carried out on behalf of the Authority by Hampshire County Council. This is an arrangement that in the past has worked well because the Authority can benefit from the expertise and economies of scale that exist within the County. I have reviewed these arrangements and have concluded that they operate effectively. However, given the Authority's enhanced capital programme and the impact of this on its current and future borrowing need, I have recommended that the Authority should keep its capital financing arrangements under review.
- 54** Officers have agreed that given the potential size of these two major capital schemes, the capital financing impact will be given additional and ongoing scrutiny to ensure that decisions are taken in the light of the most up to date analysis of any variable factors such as interest rates.

Closing remarks

- 55** I have discussed and agreed this letter with the Chief Executive and the Treasurer. I will present this letter at the Governance Committee on 17 December 2009 and will provide copies to all Authority members.
- 56** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Authority and the Constabulary during the year.

Table 3

Report	Date issued
Annual audit plan	March 2008
Data Quality	December 2008
Report to those charged with governance	September 2009
Use of Resources report	October 2009
Final accounts memo	November 2009
Annual audit letter	December 2009

- 57** The Authority and the Constabulary has taken a positive and constructive approach to our audit. I wish to thank the staff of the Authority and the Constabulary for their support and co-operation during the audit.

Kate Handy
 District Auditor
 December 2009

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

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