

Annual Audit Letter

Hampshire Police Authority

Audit 2009/10

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Key messages

This report summarises the findings from my 2009/10 audit of the Authority's financial statements (pages 4 to 5) and my assessment of its arrangements to achieve value for money in its use of resources (pages 6 to 10).

I also comment on some of the current and future challenges for the Authority (pages 11 to 13).

Audit opinion and financial statements

1 On 30 September 2010, I issued an unqualified opinion on the Authority's 2009/10 financial statements.

2 I reported to the Governance Committee on the issues arising from the 2009/10 audit. My Annual Governance Report included recommendations which the Authority is carrying out to improve the presentation of the financial statements for future years. I also suggested the Authority consider how it may better resource the accounts preparation and audit response so that the accounts working papers provide a better audit trail and audit queries are answered more efficiently.

3 Like other local government authorities, the Authority must prepare financial statements for 2010/11 based on International Financial Reporting Standards (IFRS). The Authority and the Constabulary are making good progress. There is a project plan for putting IFRS in place and this is on track to meet the statutory deadlines for financial reporting in 2010/11.

Value for money

4 The Authority has had a challenging year, with increasing financial pressures and a consequent increasing need to seek savings through changes to services as well as efficiencies.

5 The Authority has built on a good performance management framework to ensure it continues to have strong arrangements for securing value for money in its service delivery. Significant outcomes in 2009/10 include:

- successful delivery of the financial recovery plan enabling you to increase reserves by £8.7 million surplus and increasing reserves whilst maintaining and improving service delivery; and
- benchmarking supported clear improvement in performance over 2009/10 so that overall crime reduced by 9.63 per cent; detection rates improved by 2.21 per cent; and overtime cost reduced by £2 million.

6 During the year I reviewed the decision-making process that led to the purchase of Alpha Park, focusing on the reasonableness of the decision and on the planned actions by the Authority to take the project forward and arrive at a value for money solution. I reached the view that there was no need for me to exercise my statutory powers to issue a public interest report or make an application to court. In my report to the Authority, I concluded that extra evidence, not clear from the key HPA reports of 10 and 20 June 2008, exists to support Members' decision to buy Alpha Park.

7 The Authority has since undertaken a thorough evaluation of the options for Alpha Park to arrive at a value for money and affordable solution. I therefore concluded the Alpha Park purchase and later action taken by the Authority had no impact on my value for money conclusion.

8 Overall, I concluded the Authority had proper arrangements to secure economy, efficiency and effectiveness in its use of resources during 2009/10. I judged all areas covered by my assessment as meeting the specified standards. Therefore, I gave an unqualified value for money conclusion.

Current and future challenges

9 The Authority and Constabulary are facing major challenges. The economic downturn and the government's October spending review will have a significant impact on public finances. The government aims to cut police funding by 20 per cent by 2014/15 which will provide a challenge to deliver police services and to pay for new investment.

10 The Authority and Constabulary have considered the impact of the economic climate and cuts in public spending. The forward financial plans seek to identify future shortfalls in the money available and the likely increases in costs in the medium-term. The plans have projected a budget gap of £23 million for 2011/12. I am satisfied that the Authority and Constabulary are taking the situation seriously and is currently putting plans in place to address the financial challenges it faces. However the extent of the savings needed will not be known until the December announcement of the grant allocation.

11 The government plans to replace police authorities with directly elected Police and Crime Commissioners (PCCs) in the next two years. Alongside the growing demands on the police and the cuts in funding, the Authority will need to make these changes while they continue to deliver police services.

12 A review of the Authority's progress in responding to these major challenges is likely to be a key part of my 2010/11 value for money conclusion work.

Financial statements and annual governance statement

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

Overall conclusion from the audit

13 I identified a number of non trivial misstatements, but no material errors, which I needed to report to Members. Managers made the necessary adjustments none of which had an impact on the bottom line. On 30 September 2010, I issued an unqualified opinion on the 2009/10 financial statements.

14 Whilst a good first draft of the accounts was provided for audit, having mainly one officer responsible for the accounts affected the depth of working papers and the time taken to respond to audit queries. I suggested that the Authority consider how it may better resource the accounts preparation and audit response so that the accounts working papers provide a better audit trail and audit queries are answered more efficiently.

15 I made recommendations to improve the presentation of the cash flow statement; explanatory foreword; reserves summary; and subjective analysis of expenditure in the financial statements for future years. I also suggested the Authority should consider whether any of its buildings are non-specialised and therefore should be valued on the basis of market value rather than the depreciated replacement cost valuation method.

Internal control

16 The entries in the Authority's financial statements come from the general ledger and other significant financial systems. The accuracy of the transactions in financial systems depends on the various checks which staff undertake; these make up the system of internal control.

17 I found no significant weaknesses in systems of internal control. My Annual Governance Report, presented to the 27 September Governance Committee, recommended some minor areas for improvement in financial control.

Adoption of the International Financial Reporting Standards

18 2010/11 will be the first year the Authority prepares financial statements under the International Financial Reporting Standards (IFRS).

19 Successful implementation of IFRS will show how local government and police authorities manage a major change in their financial arrangements. Failure, on the other hand, could result in late or qualified opinions on financial statements and will reflect badly on the reputation of individual authorities and, potentially, the sectors as a whole. The Audit Commission has issued several briefing papers highlighting key aspects of the change to authorities. Auditors have undertaken surveys of progress in key technical areas.

20 The Head of Financial Accounting presented a comprehensive report on the impact IFRS will have on the financial statements to the Governance Committee in December 2009. He also held a training session for Members of the Governance, Finance and Professional Standards Committees in July 2010 at which we presented a session on the implications for the audit.

21 The Authority and the Constabulary are making good progress and are planning to achieve the following key challenges.

- Take a progress report on the restatement of the 2009/10 balances on an IFRS basis to the 14 December 2010 Governance Committee.
- Completion of skeleton accounts and accounting policies for Member approval in March 2011.

Value for money

I considered whether the Authority is managing and using its money, time and people to deliver value for money. I assessed the Authority's performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money conclusion.

Risk based performance reviews

Review of the decision to buy Alpha Park

22 Hampshire Police Authority (HPA) has been looking for a replacement site for its Police HQ since 2004. It has evaluated at least 18 sites but has had problems finding a suitable site. In June 2008, HPA bought Alpha Park, Eastleigh. Two years later, plans were in place to build a new Police HQ on the site.

23 Alpha Park is a major capital project for the Authority. It came to my notice because of the significant expected cost of redeveloping the site. The scope of the project had changed from converting the existing buildings to a new build Police HQ. The new build was expected to cost around £40 million. This is considerably higher than the £8.35 million conversion costs estimated on 20 June 2008 and the neutral cost reported on 10 June 2008.

24 An initial review of documentation, and discussions with senior officers, raised several questions about the decision-making process and the completeness of information presented formally to HPA. I therefore undertook a further review of the:

- decision-making process that led to the purchase, focusing on the reasonableness of the decision; and
- planned actions by the Authority to take the project forward and arrive at a value for money solution.

25 Based on the evidence I saw, I reached the view that there is no need for me to exercise my statutory powers to issue a public interest report or make an application to court. My report to the Authority concluded that:

- the key reports to the Authority of 10 and 20 June 2008 were not robust or clear enough, on their own, to support Members' decision making. Because of the short timescales involved, the reports were subject to late revision and officers gave verbal updates on the day. This put

pressure on Members to assimilate much information in a short time and Members felt pressured into making a decision;

- extra evidence, not clear from the HPA reports, exists to support Members' decision to buy Alpha Park; and
- the Authority has since undertaken a thorough evaluation of the options for Alpha Park to arrive at a value for money and affordable solution. However, given the known risks around the project in June 2008, the Authority's formal scrutiny of the production of the business case over the following 17 months to November 2009 was inadequate.

26 The Authority accepted and is acting on the recommendations contained in my detailed report.

27 On 20 July 2010, HPA decided to put on hold its plans for Alpha Park because of the current financial situation following the government's emergency budget statement and the forthcoming Comprehensive Spending Review. It is now exploring other options as part of the Estates Review which will be reported on in April 2011.

2009/10 use of resources assessments

28 In May 2010 the government announced work on Comprehensive Area Assessment would stop immediately. At the end of May 2010, the Audit Commission wrote to all chief executives to inform them the Audit Commission would no longer issue scores for its use of resources assessments.

29 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May 2010 to inform my 2009/10 conclusion.

Value for money conclusion

30 I assessed the Authority's arrangements to achieve economy, efficiency and effectiveness in its use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the value for money conclusion at each type of audited body.

31 A summary of my findings is overleaf.

| Criteria | Adequate arrangements? |
|--|---|
| Managing finances | |
| Planning for financial health | Yes |
| Understanding costs and achieving efficiencies | Yes |
| Financial reporting | Yes |
| Governing the business | |
| Commissioning and procurement | Yes |
| Use of information | Yes |
| Good governance | Yes |
| Risk management and internal control | Yes |
| Managing resources | |
| Natural resources | Yes |
| Strategic asset management | Not assessed in 2009/10 |
| Workforce | Yes (based on brought forward 2008/09 assessment) |

32 I issued an unqualified conclusion stating the Authority had proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Key findings from my work are set out below.

Managing finances

33 The medium term financial strategy covers five years, is based on reasonable assumptions, considers Constabulary and national factors and matches resources to priorities. Modelling of different levels of precept, funding, pay and activity is undertaken. The Authority reported and continues to anticipate underspends on both revenue and capital budgets for the years 2009/10 and 2010/11.

34 The Constabulary has a good understanding of its costs in comparison with other forces and uses these comparisons to drive performance and secure value for money. For example, in 2009/10 its precept was sixth lowest in 31 shire police authorities but in top quartile performance. Benchmarking has supported clear improvement in performance over 2009/10 so that overall crime has reduced by 9.63 per cent; detection rates have improved by 2.21 per cent; and overtime cost has reduced by £2 million. During Autumn 2009 a zero based budgeting exercise took place to realign budgets with priorities and to inform the budget process.

Governing the business

35 Procurement has been strengthened by exploring opportunities with other partners. Of the £34 million spent on goods and services during 2009/10, £22.5 million was through some form of collaborative agreement. Stakeholders are well engaged in commissioning and designing services.

36 The Constabulary considers good data crucial in supporting service delivery, and continues to focus on data quality. It has committed an additional 11 staff to improving information management.

37 The Authority's committee structure has been aligned to the Constabulary's management structure to enable greater scrutiny of the Constabulary by the Authority. Member role profiles are in place to ensure Members have the right skills and knowledge and this is linked to their training programme. There is a strong ethical framework in place and the Authority and the Constabulary maintains high standards of conduct.

38 Internal Audit's 2009/10 annual report concludes that adequate and effective risk management processes are in place to provide assurance about the management of risk and system of internal control. Financial systems provide materially reliable information and we identified few control weaknesses. Standing Orders, Financial Instructions and a Scheme of Delegation are in place and are regularly reviewed.

Managing resources

39 The Constabulary is firmly committed to reducing energy consumption and waste. It has appointed a dedicated Energy Management Officer and environmental champions have been appointed across the Constabulary. A staff survey has been carried out to gauge awareness of environmental issues. The Authority and Constabulary manage the workforce effectively. The People Strategy 2009-2012 integrates training, recruitment and people management in a cradle to grave approach. It makes clear links between the People Development Plan and the Force Development Plan.

Approach to local value for money work from 2010/11

40 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders on possible choices for a new approach to local value for money audit work. The Audit Commission aims to introduce a new, more targeted and better value approach to local value for money audit work.

41 I will base my work on a reduced number of reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

42 I will decide a local programme of value for money audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer provide an annual scored judgement on my local value for money audit work. Instead I will report the results of all my local value for money audit work and the key messages for the Authority in my Annual Governance Report to those charged with governance and in my Annual Audit Letter.

Current and future challenges

The economic downturn

43 The last few years have seen the United Kingdom enter a significant economic recession on the back of a global economic crisis triggered by the collapse of several high-profile banks.

44 The effect locally, is an increasing demand for public services at a time of reduced levels of central government funding. The recent Comprehensive Spending Review confirmed the government plans to cut police funding by 20 per cent by 2014/15.

45 The impact of the recession and the Comprehensive Spending Review will present a challenge to the Authority for the coming years in preserving services to local residents, keeping a sound financial position and delivering value for money.

Audit Commission, Her Majesty's Inspectors of Constabulary (HMIC) and Wales Audit Office (WAO) National Reports

46 In the last six months, inspectorates have issued four national reports which look at the future of value for money and governance in policing (Appendix 2).

47 The reports deal with different topics, covering achieving value for money with limited funding and reporting on the interim results from specific inspections of police authorities. All four reports, however, challenge authorities and constabularies to review current ways of service delivery to meet public expectations in future years.

48 The reports note the police service has reduced crime and increased public confidence during a time of expansion. In a new era of austerity with reduced funding, the reports challenge authorities and constabularies to:

- show local strategic leadership of reform, taking decisive action to bridge funding gaps;
- redesign the way police services are delivered, linked to the money available and their assessment of the threat of serious criminality, the harm crime causes and the risks of day-to-day crime;
- challenge effectively all spending and efficiency targets for police and support services, including the way constabularies use frontline police;
- have medium term plans geared to the cuts required, supported by detailed plans showing what needs to be done to deliver the cuts;
- save up to £1 billion (12 per cent of government funding), by better workforce management, improved productivity, merging business support, better procurement and working with other constabularies and partners; and

- prioritise visible policing over all the police do to achieve savings of beyond 12 per cent of government funding.

The Authority and Constabulary's response

49 The Authority and Constabulary are proposing to change the way the Constabulary delivers policing. They aim to centralise support and specialist services and to push down operational decisions to a more local level. The plans aim to save money and to improve local policing.

50 The government's spending review confirmed the extent of planned cuts on police funding. The Authority and Constabulary have been anticipating cuts for some time and had changed their financial plans to meet the expected shortfall. The Authority and Constabulary have a good track record for saving money and making efficiencies. They will need to build on this even more. They are planning to cut spending by £23 million in 2011/12. The Police Authority are consulting their partners and public on the budget and the changes. Their plans include:

- reducing the six Operational Command Units (OCUs) to three Local Policing Areas (LPAs);
- cutting the number of police by 120 officers and other staff by 150 posts;
- reducing overtime and sickness;
- working with other constabularies, for example collaboration with Thames Valley, Surrey and Sussex Police, to share costs; and
- cutting back-office costs.

51 The budget reductions for 2012/13, 2013/14 and 2014/15 have yet to be determined but the Authority and the Constabulary are planning on the basis of a budget reduction of between £10 million and £15 million in each year.

52 I am satisfied that the Authority is taking the situation seriously and is currently putting plans in place to address the financial challenges it faces.

Next steps

53 The national reports recommend that authorities and constabularies should test their own arrangements against the reports to assess if they are delivering value for money and meeting the characteristics displayed by those police authorities that are performing well.

54 I will continue to review the Authority's and Constabulary's responses to the tighter fiscal climate as part of my 2010/11 value for money conclusion work.

Police reform

55 The government has announced its plan to abolish police authorities and introduce directly elected Police and Crime Commissioners (PCCs) by May 2012. PCCs will cover police constabulary areas and hold chief constables to account for the constabulary's performance. A Police and Crime Panel is to have overview and scrutiny powers over the Commissioner.

56 The national inspection reports (Appendix 2) found that most police authorities were performing adequately, but in general were not:

- taking a strategic lead in deciding the longer- term shape of policing for their area; and
- ensuring a clear and sustained focus on value for money and collaboration.

57 Replacing police authorities with PCCs raises several risks relevant to these key themes of leadership and value for money for the Authority and Constabulary.

58 It will be important for the Authority to consider and respond to the following issues.

- Keeping the capacity of members and officers to have the vision, drive and ability to deal with the risks associated with the transition.
- Providing strategic direction to focus on key priorities ensuring the Constabulary preserves performance with fewer resources.
- Checking and testing the Constabulary's plans to provide better value from the money it spends.
- Making sure financial control is kept up during major organisational change.

59 PCCs will have a community safety role and may buy community safety work from partners in local areas. At the same time, the government is reviewing rules around community safety to free partnerships from central rules. Partners can then respond better to local concerns.

60 Commissioners will need good information to deliver better community safety. However, partnerships will add complexity in providing transparent information to the public. The partnerships that will emerge will need to agree on:

- providing clear, credible and easy to understand information to the public;
- a better understanding of the different communities to adapt policing to their needs; and
- showing effective scrutiny, challenge and review in deciding actions for local communities.

61 We will review the Authority's plans for responding to the Police Reform issues as part of the 2010/11 audit.

Closing remarks

62 I have discussed and agreed this letter with the Chief Executive, the Treasurer of the Authority and the Constabulary's Director of Finance and Resources. I will present this letter to the Governance Committee on 15 December 2010 and have provided copies to all Authority Members.

63 I have included detailed findings, conclusions and recommendations in the areas covered by my audit in the reports I issued to the Authority during the year.

| Report | Date issued |
|--|----------------|
| Audit Fees Letter | April 2009 |
| Opinion Audit Plan | June 2010 |
| Review of the decision to buy Alpha Park | September 2010 |
| Annual Governance Report | September 2010 |
| Opinion on financial statements and VFM conclusion | September 2010 |
| Whole of Government Accounts Assurance Statement | October 2010 |

64 I have set out in Appendix 1 my 2009/10 audit fees which I reported to the Governance Committee in my Audit Fee Letter and Annual Governance Report.

65 Members and officers have taken a positive and helpful approach to my audit. I wish to thank the Authority and Constabulary staff for their support and cooperation during the audit.

Kate Handy
District Auditor
November 2010

Appendix 1 Audit fees

| | Proposed (£) | Actual (£) |
|--|-----------------|----------------|
| Financial statements and annual governance statement | 73,000 | 77,000 |
| Value for money | 29,000 | 29,000 |
| Review of the decision to buy Alpha Park | 20,000 | 25,000 |
| Total audit fees | 122,000 | 131,000 |

Appendix 2 National reports

In the last six months, the Audit Commission, Her Majesty's Inspectors of Constabulary (HMIC) and the Wales Audit Office (WAO) have issued four national reports which look at the future of value for money and governance in policing.

Value for money

- Sustaining value for money in the police service (Audit Commission, HMIC and WAO: July 2010).
- Valuing the Police: Policing in an age of austerity (HMIC: July 2010).

Police Authority inspection

- Learning Lessons: An overview of the first ten joint inspections of police authorities (HMIC and Audit Commission: March 2010).
- Police governance in Austerity: thematic report into the effectiveness of police governance (HMIC: October 2010).

Appendix 3 Glossary

Annual governance statement

Governance is about how local government bodies ensure they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, which direct and control local government bodies and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Authority on the extent to which it complies with its own local governance code. This includes how the Authority has recorded the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether the Authority has prepared the financial statements properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

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