

Annual Audit Letter

November 2006



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Hampshire Police Authority

Audit 2005/2006

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. 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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The purpose of this letter

- 1 The purpose of this Annual Audit Letter (letter) is to summarise the key issues arising from the work that we have carried out during the year. Although this letter is addressed to the members of the Authority, it is also intended to communicate the significant issues we have identified, in an accessible style, to key external stakeholders, including members of the public. The letter will be published on the Audit Commission website at www.audit-commission.gov.uk.
- 2 This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from www.audit-commission.gov.uk.

The responsibilities of the auditor and the Authority

- 3 We have been appointed as the Authority's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England, including Police Authorities.
- 4 As the Authority's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Authority achieving its objectives. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

The scope of our work

- 5 Our main responsibility as your appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:
 - the Authority's accounts; and
 - whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 6 This letter summarises the significant issues arising from both these areas of work and highlights the key recommendations that we consider should be addressed by the Authority. A list of all reports issued to the Authority in relation to the 2005/06 audit is provided in the closing remarks section at the end of this letter.

The audit of the accounts

- 7 We gave an unqualified opinion on the financial statements on 28 September 2006 in advance of the deadline of 30 September.
- 8 The accounts presented for audit were available on time and were supported by good quality working papers. In our Governance report, presented to members on 25 September 2006, there were no significant issues that were necessary to bring to the Authority's attention arising from our work on the financial statements.

Financial position

- 9 The original budget of £273.2 million for the year was adjusted during the year to £272.89 million. Actual net expenditure was £272.95 million including the transfer a further £3.0 million to reserves. The largest variations against the revised budget included:
 - an overspend on employee costs of £1.384 million, which was partly due to additional expenditure on secondments and on special events (including Trafalgar 200) which is recoverable; and
 - an overspend of £1.113 million on police pension costs.
- 10 These costs were however offset by savings against the IT and Communications budget that totalled £3.989 million.
- 11 At 31 March 2006 the Authority's general reserve was £5.37 million (£6.46 million at 31 March 2005), which is above the minimum prudent level previously reported by the Treasurer of £4 million. Specific revenue earmarked reserves at 31 March 2006 totalled £14.02 million, giving total revenue reserves of £19.39 million.
- 12 The specific reserves included £1.9 million in respect of devolved budgets carried forward and £2.02 million to fund commitments in respect of goods and services received and paid for in 2006/07. In addition the balance on the pension reserve totalled £4.7 million. The Treasurer identified that this reserve was no longer required following the introduction from 1 April 2006 of new police pension funding arrangements. Subsequently, following consideration of reserve balances by the Authority in October 2006, this amount is to be transferred to the General Reserve.
- 13 The 2006/07 second quarter monitoring report shows that there is a £2.1 million under spend against the profiled revenue budget at the end of August 2006, but notes that experience has shown that this is unlikely to result in a similar level of under spend at the year end.

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- 14 The Treasurer has highlighted within the Forward Revenue Budget 2007/08 report, to be considered by the Finance Committee in December, that the Authority will need to identify savings of £5.8 million from the current policies budget if the increase in the 2007/08 Council Tax is to be restricted to 5 per cent. The Force is therefore to undertake a review of all budgets during November 2006 to January 2007. The Police Authority is to be involved in this review, which will make use of a range of comparative data including for example Most Similar Forces benchmarking and Activity Based Costing data.
- 15 Capital expenditure during the year was £11.15 million compared to the approved programme of £14.16 million. The Authority has received reports on the reasons for the underspend, which includes:
 - the realignment of land and buildings projects £1.237 million; and
 - the delays in relation to Project Oberon £1.189 million.
- 16 The Authority has approved a capital programme covering the period 2006/07 to 2010/11. This programme recognises that the Authority will need to secure additional resources to fund its capital programme totalling £42.6 million should the full programme be implemented.

Use of resources

- 17 We are required to issue a conclusion on whether we are satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is assessed against criteria specified by the Audit Commission and is known as the value for money conclusion.
- 18 We are also required to assess how well Police authorities manage and use their financial resources by providing scored judgements on the Authority's arrangements in five specific areas. This is known as the Police Use of Resources Evaluation (PURE) and was completed for the first time in 2006.

Value for money conclusion

- 19 We concluded that the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources and therefore an unqualified VFM conclusion was issued.

Police Use of Resources Evaluation (PURE)

- 20 We assessed the Authority's arrangements in five areas. Each area was scored from 1 to 4 (1= poor and below minimum standards, 2 = fair, 3 = good and 4 = excellent). An interim report supporting our assessment on 4 of the themes and highlighting areas for improvement was issued to the Authority during July 2006. A final report including the Financial Reporting theme was issued in November 2006. Both reports were made available to HMIC to inform its baseline assessment.

Table 1 PURE scores

Area	Score	Recommended action
Financial reporting	3	Areas for Improvement in PURE report
Financial management	3	Areas for Improvement in PURE report
Financial standing	3	Areas for Improvement in PURE report
Internal Control	2	Areas for Improvement in PURE report
Value for money	3	Areas for Improvement in PURE report
Overall Evaluation	3	

- 21 The scored judgements are linked to our responsibilities under the Code; and the areas for improvement set out in the detailed PURE report have been discussed with the Force and the Authority.

Review of Crime Data Quality

- 22 We reviewed the arrangements in place for recording and reporting crime data focusing on elements of data reported in the Police Performance Assessment Framework (PPAF).
- 23 Based on our detailed testing undertaken of the standard of crime recording we assessed data quality as 'Fair', this was a sustained performance from last year, although there was some initial difficulty with the initial data. Our overall assessment relating to your crime recording was 'Poor', which was a reduction from last year and, although the Authority and Force had made some progress since last year, this reflects the loss of focus on securing improved NCRS compliance due to the difficulties encountered when implementing the Record Management System (RMS).
- 24 The Force and Authority have agreed an action plan to further improve arrangements. We will be revisiting Crime Data Quality during the coming months as part of the 2006/07 audit.

Records Management System (RMS)

- 25 The Authority and Force have recently completed the implementation process for Project Oberon (RMS). The system has now been formally signed off and it is understood that a 'post implementation review' is to be carried out. We will review the findings from this post implementation review during the current audit.

Activity Based Costing

- 26 We assessed the implementation of Activity Based Costing (ABC) by considering whether the Force has systems in place to produce an accurate submission of costing data to the Home Office.
- 27 We assessed the costing submission as 'Good', and management arrangements and utilisation 'Fair'. This compares to the previous year when both management arrangements and utilisation were assessed as 'Good'. The assessment was a harder test this year, which also included a new review area covering the role of the Police Authority. In order to improve, efforts now need to concentrate on fully embedding ABC throughout the whole organisation and maximising the use of ABC data to drive improvement in service delivery at both strategic and local levels. An action plan has been agreed.

HMIC baseline assessment

- 28 We have agreed locally with HMIC that we will reflect the results and conclusions from their 2006 baseline assessment in this letter.
- 29 The following table summarises the results of HMIC assessments.

Table 2 HMIC Baseline assessment 2006

Summary of Judgements	Grade	Direction of Travel
Citizen Focus		
Fairness and Equality in Service Delivery	Fair	Improved
Neighbourhood Policing and Problem Solving	Fair	Improved
Customer Service and Accessibility	Fair	Stable
Professional Standards	Poor	Not graded
Reducing Crime		
Volume Crime Reduction	Good	Declined
Investigating Crime		
Managing Critical Incidents and Major Crime	Good	Improved
Tackling Serious and Organised Criminality	Fair	Improved
Volume Crime Investigation	Fair	Declined
Improving Forensic Performance	Good	Declined
Criminal Justice Processes	Good	Improved
Promoting Safety		
Reducing Anti-Social Behaviour	Good	Improved
Protecting Vulnerable People	Fair	Stable
Providing Assistance		
Contact Management	Excellent	Stable
Providing Specialist Operational Support	Fair	Improved
Strategic Roads Policing	Excellent	Stable
Resource Use		
Human Resource Management	Good	Stable
Training, Development and Organisational Learning	Good	Improved

Summary of Judgements	Grade	Direction of Travel
Race and Diversity	Good	Improved
Managing Financial and Physical Resources	Good	Stable
Information Management	Good	Stable
National Intelligence Model	Good	Improved
Leadership and Direction		
Leadership	Good	Not graded
Performance Management and Continuous Improvement	Fair	Declined

- 30 This assessment shows that the Force has either improved or sustained its performance in the majority of areas. There were four areas in which the direction of travel was judged to have declined and two that were not graded. This is reflected in the summary of performance table for 2005/06 for the Police Performance and Assessment Framework reproduced below.

Table 3 Police performance and assessment for 2005/06

Performance Area	Delivery	Direction
Reducing Crime	Excellent	Deteriorated
Investigating Crime	Fair	Stable
Promoting Safety	Fair	Improved
Providing Assistance	Excellent	Stable
Citizen Focus	Fair	Deteriorated
Resource Use	Good	Stable
Local Policing	Fair	Improved

- 31 This picture of the Force's performance in 2005/06 reflects the mixture of successes and challenges that the Force has faced during the year. HMIC have recognised the provision of support and expertise to the new Iraqi Police Service, the successful policing of Trafalgar 200 and the Force wide structure review.
- 32 A major challenge has been the implementation of the new records management system, which presented serious difficulties in providing accurate performance data for much of 2005/06. Other challenges included the force-wide adoption of neighbourhood policing by 2008, and implementation of a system for the Management of Police Information by April 2007.

Closing remarks

- 33 This letter has been discussed and agreed with the Treasurer and Director of Finance. A copy of the letter is being discussed with the Finance Committee Chairman on 1 December and will be presented at the Finance Committee on 12 December 2006. Copies will then be provided to all Authority members.
- 34 Further detailed findings, conclusions and recommendations on the areas covered by our audit are included in the reports issued to the Authority during the year. These are listed in the following table.

Report	Planned date of issue	Actual date of issue
Audit Plan	31 March 2005	July 2005
Final Accounts and Interim report	October 2006	To be issued.
Annual Governance Report including opinion on accounts and VFM conclusion.	30 September 2006	25 September 2006
PURE Interim Report	July 2006	July 2006
PURE Final Report	October/November 2006	November 2006
Crime Data Quality	June 2006	June 2006
Activity Based Costing	June 2006	June 2006
Annual Audit Letter	November 2006	November 2006

I would like to take this opportunity to thank the Authority and the Force for the assistance and co-operation we have received during the course of the audit.

Peter Arkell
District Auditor
 November 2006