

# Annual Audit Letter

Hampshire Police Authority

Audit 2010/11



# Contents

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- Key messages.....3**
  - Audit opinion and financial statements.....3
  - Value for money .....3
- Current and future challenges .....4**
- Financial statements and annual governance statement.....5**
  - Overall conclusion from the audit.....5
  - Significant weaknesses in internal control.....5
- Value for money.....6**
- Closing remarks .....8**
- Appendix 1 - Fees.....9**
- Appendix 2 - Glossary.....10**

# Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- the audit of your financial statements; and
- my assessment of your arrangements to achieve value for money in your use of resources.

Audit element	My findings
Unqualified audit opinion	√

## Audit opinion and financial statements

I issued an unqualified opinion on the Authority's 2010/11 financial statements. This was the first year the Authority prepared financial statements under International Financial Reporting Standards (IFRS). The additional work required for IFRS prevented a thorough final review of the accounts before they were presented for audit.

I found a higher than usual number of errors in some of the primary statements and disclosure notes. Some of these were material but none had an impact on the bottom line. Overall, the working papers to support the accounts were adequate although late adjustments to the accounts were not reflected in some working papers which increased the number of audit queries. I charged an extra fee of £5,900 for the extra work required to audit the accounts.

The Authority needs to consider how it may refocus resources so that the 2011/12 draft financial statements can be subject to the normal final review before submission for audit, the accounts working papers provide a better audit trail and audit queries are answered more efficiently.

Audit element	My findings
Proper arrangements to secure value for money	√

## Value for money

I gave an unqualified value for money conclusion.

Hampshire Constabulary and Hampshire Police Authority are facing a 20 per cent decrease in their funding and a budget gap of £40 million by 2015. They have an ambitious savings plan for the next four years that aims to exceed the projected gap by around 33 per cent. Past and current performance suggests this is deliverable. Such a level of savings also provides contingency to cope with unforeseen changes (including no precept increases) or plans which may not deliver.

The Constabulary and Authority have set priorities for resources within tighter budgets. They achieved significant cost cuts in 2010/11 and delivered an underspend of £19 million. Through its 'Force Change Programme' the Constabulary and Authority understand the financial challenge, have considered options which protect the front-line, and are managing the impact on delivery. There are processes in place to manage risks and monitor achievements.

# Current and future challenges

The Authority and Constabulary face another challenging year ahead. They need to deliver effective organisational development and service transformation in times of financial austerity. My work for the 2011/12 VFM conclusion will take account of how the Authority and the Constabulary are responding to these challenges.

Challenge	Authority's response
<b>Financial resilience and the delivery of the Force Change Programme</b>	The new financial realities pose a real challenge to the Authority and Constabulary. They need to preserve service performance with far fewer resources. The impact of the economic climate on both resource management and on front-line policing has been considered. Through the 'Force Change Programme', there has been a change in the way the Constabulary delivers policing with the centralisation of support and specialist services and the delegation of operational decisions to a more local level. The Force Change Programme is now in its delivery phase. While officers believe the change programme is well structured, they recognise that some aspects of the programme will be difficult to deliver over the next few years.
<b>Joint arrangements and collaboration</b>	The Police Reform and Social Responsibility Act 2011 encourages cooperative working and collaboration with partners. The Constabulary has a high-level of existing and emerging collaboration. Over the next four years, the Constabulary anticipates making notable levels of savings through collaboration. It takes a dual approach, collaborating both with a single preferred partner, Thames Valley Police, and more widely in South East regional initiatives. It is also exploring joint working across Hampshire with the County Council and the Fire Service. The Authority and Constabulary recognise that these arrangements need to be underpinned by strong governance arrangements, with a clear business case setting out the expected benefits.
<b>Preparation for Police and Crime Commissioners (PCCs)</b>	The Police Reform and Social Responsibility Act 2011 abolishes police authorities and replaces them with directly elected police and crime commissioners (PCCs), with the Chief Constable being a separate statutory body. The transition period will put pressure on member and officer capacity and could increase risks around preserving value for money and financial control. The Authority recognises the risks involved and that a specific risk needs to be included on the Authority's Strategic Risk Register. It has identified that its Governance Committee will oversee the transition phase.

# Financial statements and annual governance statement

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

## **Overall conclusion from the audit**

I issued an unqualified opinion on the 2010/11 financial statements. This was the first year the Authority prepared financial statements under International Financial Reporting Standards (IFRS). The extra work required for IFRS prevented a thorough final review of the accounts before they were presented for audit. Overall, the financial disclosures in the statements complied with the requirements of the relevant and applicable accounting standards and the requirements of the Code of Practice of Local Authority Accounting, a number of amendments were required to improve the quality of the disclosures.

The draft financial statements were adequate although there were many errors which I needed to report to Members at the Governance meeting of 22 September 2011. Most of the errors were adjusted and the amendments made had no impact on the bottom line. The working papers to support the accounts were also adequate although late adjustments to the accounts were not reflected in some working papers and this increased the number of audit queries. I charged an extra fee of £5,900 for the extra work required to audit this year's accounts.

As discussed in the 2009/10 Annual Audit Letter, having mainly one officer responsible for the accounts affects the depth of working papers and the time taken to respond to audit queries. The Authority needs to consider how it may better resource the accounts preparation and audit response so the 2011/12 draft financial statements can be subject to the normal final review before submission for audit, the accounts working papers provide a better audit trail and audit queries are answered more efficiently.

## **Significant weaknesses in internal control**

I found no significant weaknesses in systems of internal control. Internal audit reported on control weaknesses in calculating pension payments by the Police Pension Administrator to the Governance Committee in June 2011. I carried out extra work to assure myself that the Police Pension Fund account was materially stated. I concluded the control weaknesses did not materially impact on the financial statements.

# Value for money

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

My overall conclusion is the Authority has proper arrangements to secure, economy, efficiency and effectiveness in its use of resources. My conclusion on each of the two areas is set out below.

## Value for money criteria and key messages

Criterion	Key messages
<p><b><u>1. Financial resilience</u></b></p> <p><b>The organisation has proper arrangements in place to secure financial resilience.</b></p> <p>Focus for 2010/11:</p> <p><i>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</i></p>	<p>The Constabulary and the Police Authority are facing a 20 per cent drop in their funding over the next four years to 2015. They have an ambitious savings plan, the Force Change Programme, for the next four years which aims to achieve £53 million (33 per cent more than the projected funding gap of £40 million). This provides contingency to cope with unforeseen changes (including no precept increases) or plans which do not deliver. To do this a comprehensive business plan and force change programme has been developed to redesign of the force and secure the budget decreases. The savings plan is on target so far with a forecast underspend for the year of some £9 million.</p> <p>Financial governance is sound. The Constabulary and the Authority have strong governance arrangements in place to ensure the change programme remains on track. They have a proven track record of sound financial planning. Budget setting is undertaken within a clear financial strategy and medium term financial plan. Reserves are maintained and managed to provide support for future plans and economic conditions.</p> <p>Financial control is also good. The Authority has a record of working within its budget with significant underspends. In 2010/11 it achieved a £19 million underspend and added this surplus to balances to aid future financial planning and resilience.</p>

**2. Securing economy efficiency and effectiveness**

**The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.**

Focus for 2010/11:

*The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.*

The Authority has set priorities for its resources within tighter budgets. A high-level summary identifies where and when the Force will realise savings of £40 to £50 million over the next four years. This savings level also provides contingency to cope with unforeseen changes, including no precept increases, or plans which may not deliver. The detailed plan is developing well but has yet to be completed in detail with timescales and milestones.

The Constabulary and the Authority have engaged with members, staff and other stakeholders on the financial challenges they face. Collaborative arrangements with other forces have been set up, such as the joint ICT working with Thames Valley, to achieve efficiencies and savings. They are also looking to extend their partnership working.

The Constabulary and the Authority have a change programme risk register which identifies high to low risks with actions being taken to minimise them. Most cost reductions will be achieved through staff turnover, limited recruitment, voluntary redundancy and potentially compulsory redundancy. The planned use of reserves will minimise the impact for the first year and will provide funding for cost of change.

The Authority achieved significant cost cuts in 2010/11 and an underspend of £19 million. It reports, at the end of September 2011, that it is on track to deliver the planned savings for 2011/12 with a forecast underspend of some £9 million. While there is less detail for the following three years, the financial challenge is understood by the Constabulary and the Authority and there is a clear strategic vision, through the Force Change Programme, to be a top quartile force in key performance areas and bottom quartile in cost.

The Constabulary and the Authority have a clear commitment to improve productivity and efficiency while protecting visible policing. This is shown by the plan to keep the cut in police officer posts to a minimum (only 8 per cent of the current establishment). The restructuring from six Operational Command Units to three policing areas from 1 April 2011 will provide more consistent and efficient policing for local people.

# Closing remarks

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I have discussed and agreed this letter with the Chief Executive, the Treasurer, and the Constabulary's Director of Resources on 7 November. I will present this letter at the Governance Committee on 12 December 2011 and will provide copies to all Authority members.

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

Report	Date issued
Audit Fees Letter	April 2010
Opinion Audit Plan	June 2011
Annual Governance Report	September 2011
Opinion on financial statements and VFM conclusion	September 2011
Whole of Government Accounts Assurance Statement	September 2011

The Authority has taken a positive and constructive approach to my audit. I wish to thank the Authority staff for their support and cooperation during the audit.

Kate Handy

District Auditor

November 2011

# Appendix 1 - Fees

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	Actual	Proposed	Variance
Audit fee	114,450	108,550	5,900
Non-audit work	0	0	0
<b>Total</b>	<b>114,450</b>	<b>108,550</b>	<b>5,900</b>

The scale fee, set by the Audit Commission, for Hampshire Police Authority was £109,176. The fee proposed for 2010/11 was slightly below the scale fee. However, I have charged additional fees of £5,900 because of the extra audit work needed to audit this year's accounts.

The Audit Commission has also made refunds of audit fees to subsidise the one-off element of the cost of transition to IFRS and to reflect the new reduced arrangements for local value for money audit work. These refunds are not reflected in the fee quoted above but amount to £10,227.

# Appendix 2 - Glossary

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## **Annual governance statement**

Governance is about how local government bodies ensure that 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, by which local government bodies are directed and controlled 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, including how it has monitored 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 financial statements, I must give my 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; and
- whether they have been prepared properly, following the relevant accounting rules.

## **Opinion**

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

## **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 resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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