

Annual Audit Letter

Northumbria Police Authority

INSIDE THIS LETTER

PAGES 2 - 3

- Key messages
- The purpose of this Letter
- Background to our audit
- Objectives of our audit

PAGES 4 - 9

- Financial aspects of corporate governance
- Accounts
- Performance management

PAGES 9 - 10

- Future audit work
- Status of our Annual Audit Letter
- Closing remarks

PAGES 11 - 13

Appendix 1

- Reports issued during the 2002/2003 audit

Appendix 2

- Auditor's statutory report on the Best Value Performance Plan

Reference:	NO013-09-2003 AAL
Date:	January 2004

Key messages

Overall, the Authority has made good progress in a number of key areas, including the implementation of national crime recording, activity based costing and e-policing.

At the same time the Authority has continued to develop its overall arrangements for securing sound governance, though there is scope for improvement in some areas.

During the year we have also issued unqualified opinions on both the financial statements and the 2003/2004 Best Value Performance Plan.

There are five high level messages that we wish to draw to Members' attention.

Corporate governance

Although overall arrangements for securing sound governance are satisfactory, the Authority recognises the need to continue to develop its approach in a number of areas, including:

- developing a more pro-active approach for the discharge of the Treasurer's section 151 officer role (reflecting national requirements to make this role more pro-active)
- the need to improve the timeliness of bank reconciliations
- documenting a formal treasury management agreement with Gateshead Council
- introducing a procurement strategy to further strengthen existing arrangements
- implementing a risk management strategy to facilitate the integration of the Authority's planning and monitoring processes.

Work is already underway in developing certain areas such as procurement and risk management. In other areas appropriate action plans have been agreed with officers.

Financial standing

The Authority continues to manage its finances prudently, with sound control of spending demonstrated in the year.

Appropriate balances are held in reserve to mitigate the increasing financial pressures arising from the cost of pensions.

Data quality

The introduction of the national crime recording standard (NCRS) required police forces to adopt a consistent nationwide approach to crime recording. Earlier this year we undertook a national study of authorities' arrangements to secure data quality and ensure compliance with the NCRS.

On the basis of this work, Northumbria was one of a small number of authorities who achieved a 'green' traffic light. Some scope for further development was identified and we have agreed an action plan to address all of the issues identified.

Activity based costing (ABC)

The National Policing Plan made clear that all authorities and forces are expected to implement ABC in 2003/2004. The Force has submitted an action plan for the implementation of ABC, which we assessed as meeting the requirements set by the Home Office. A 'green' light assessment was therefore given. This reflects well on the commitment of the Authority and the Force to delivering good quality activity based cost information.

E-policing

The move to e-policing emphasises the importance of sound project management to ensure projects are delivered on time, in budget and in line with project objectives.

Our review of the management of the ongoing e-policing project concluded that the Authority had applied robust project management standards. To reinforce the good practice already in place, the Authority has already made progress in responding to our recommendations for improvement.

The purpose of this Letter

This Annual Audit Letter to Members summarises the conclusions from our 2002/2003 audit. It also reports for Members the significant issues arising from our audit, together with our comments on other current issues.

More detail on the specific aspects of our work can be found in the separate reports we have issued during the year. These reports are discussed and agreed with officers and presented to the Authority, and the reports we have issued are listed at Appendix 1 for information.

The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.

Background to our audit

This has been a year of significant challenge for the Authority and Force. The Authority has been engaged in addressing a number of key matters during the year:

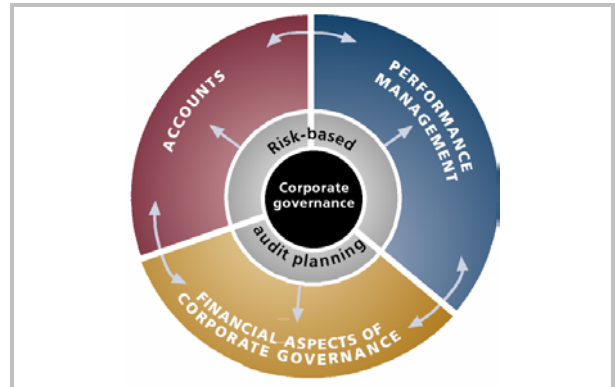
- planning for and implementing the new national crime recording standard
- developing an action plan to implement activity based costing in line with the national roll-out timetable
- continuing to deliver the duty to achieve Best Value, through new Best Value reviews and the delivery of implementation plans from previous years
- delivering the required 2% efficiency savings required by the Home Office.

Objectives of our audit

Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.

Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Exhibit 1.

EXHIBIT 1 THE THREE MAIN ELEMENTS OF OUR AUDIT OBJECTIVES



Accounts

- Opinion

Financial aspects of corporate governance

- Financial standing
- Systems of internal financial control
- Standards of financial conduct and the prevention and detection of fraud and corruption
- Legality of transactions

Performance management

- Use of resources
- Performance information
- Best Value Performance Plan

Financial aspects of corporate governance

Financial standing

The Authority continues to manage its finances prudently, with sound control of spending demonstrated in the year. The Authority holds appropriate balances to mitigate the increasing financial pressures arising from the cost of pensions.

General fund

The revenue out-turn of £227.8m was £7.5m less than the revised estimate. The main factors behind the underspend were:

- £2m reduced contributions to capital outlay
- the receipt of £1.7m more investment interest than budgeted for
- lower than expected insurance claims (£1.1m) resulting in a lower than expected use of the insurance provision.

The general reserve balance has increased by £2.8m to £18.4m, which represents 8.15% of the Authority's revenue budget, which is a strong position compared to other police authorities. Latest estimates suggest that the Authority is on target to deliver the 2003/2004 budget and make a further contribution to reserves.

The introduction of a risk management strategy will inform the level of balances required by the Authority. Guidance recommends that the level and utilisation of reserves should be determined by the Authority, informed by the advice and judgement of the Treasurer.

Pensions

We have reported in previous years on the pressures facing the Authority due to forecast rises in pension costs.

The Authority continues to respond prudently by:

- recognising the effect in the medium term financial strategy - additional expenditure is forecast to rise to £4.3m by 2006/2007

- setting aside £31m of reserves for future pension obligations – an increase of £2.4m from 2001/2002.

Capital programme and resources

The Authority's estate strategy will use a significant proportion of available capital funding over the next few years. This emphasises the importance of sound management of the capital programme and available capital finance. The Authority's track record in managing the financing of its capital programme remains good. In 2002/2003 the capital programme outturn was £6.4m compared to the revised estimate of £7.8m. Additional capital receipts and capital grants have also been received, which increased usable capital reserves by £5m to £29m.

Systems of internal financial control

Overall arrangements for maintaining adequate systems of internal financial control are sound and reflect contemporary good practice in many areas. The Authority recognises the need to make progress in areas that remain underdeveloped such as procurement and risk management. The timeliness of year-end bank reconciliations could also be improved.

A treasury management agreement should be developed with Gateshead Metropolitan Borough Council to formalise arrangements in this area.

Risk management

During last year's audit we noted that measures were being taken to develop and implement a risk management strategy and to integrate risk management into current business planning arrangements. The development of such an approach would strengthen internal financial controls and governance arrangements, and facilitate the integration of various planning and monitoring processes within the Authority.

However, a risk management strategy has not yet been introduced and a report has not been presented to the Authority. Given the importance of this area in identifying and mitigating the risks inherent in service delivery it is important that this is given a high priority.

Responsibilities of the chief finance officer (section 151 officer)

Our review of the role of the s151 officer evaluated the arrangements to give the Treasurer positive assurance that his role is being discharged effectively. Although arrangements are effective overall, in common with many authorities, a more pro-active approach is now needed to reflect new risk areas and meet the requirement to produce a robust statement of internal control in 2003/2004. Given the pace and complexity of change it is important that arrangements are refreshed from time to time to ensure they are up-to-date and reflect contemporary good practice. With this in mind, we have agreed an action plan with the Treasurer to address the areas where existing procedures could be further strengthened.

Bank reconciliations

The Authority completed its year-end bank reconciliation by its target of 18 July 2003. However, future bank reconciliations should be prepared more promptly each quarter.

Internal Audit

An effective Internal Audit (IA) service is key to providing authorities with assurance that sound systems of internal financial control are in place and operating effectively.

Overall, we are satisfied with the quality and coverage of IA work and we have been able to place appropriate reliance on their work during the year. Our detailed review last year identified a number of areas for improvement and IA has responded positively to the recommendations made by:

- introducing an audit charter
- reallocating responsibility for non-audit duties.

In addition, IA is planning to update its manual to address other recommendations and to take account of changes to procedures resulting from the introduction of an e-audit system from April 2004. This will be supported by the continuing progress towards attaining IIP accreditation, which will strengthen training and staff development.

Procurement

Although a procurement strategy has not yet been finalised, work is underway. The introduction of a procurement strategy will strengthen existing procurement arrangements and the need to underpin it with further detailed guidance, along with appropriate training is recognised.

Treasury management

Gateshead Metropolitan Borough Council administers the Authority's loans and investments on its behalf. Although the Council has adopted a treasury management code of practice in line with CIPFA requirements, at present this does not set out the respective responsibilities of the Council and the Authority and the arrangements in place for managing this process in practice. This has been identified previously, in the 2000/2001 Annual Audit Letter, which highlighted the need for a formal treasury management agreement between the Authority and the Council.

Such an agreement has not yet been put in place and it is important that the Authority approves a formal treasury management agreement with the Council to clarify arrangements.

This agreement should include the mechanism by which the Authority's loan and investment interest is calculated, an explicit statement of the benefits of the current arrangement with Gateshead Metropolitan Borough Council (lower risk etc), and the financial impact of the differential interest rates the Police Authority pay on loans and receive on investments.

Standards of financial conduct and prevention and detection of fraud and corruption

Overall arrangements for preventing and detecting fraud and corruption are robust and will be further strengthened when the anti-fraud and corruption and confidential reporting codes are formally adopted.

The Authority has responded positively to the NFI 2002 data matching exercise and to date no overpayments have been identified.

Overall arrangements

During the year the Authority adopted a confidential reporting code and an anti-fraud and corruption policy is being finalised for introduction in early 2004.

The Authority is awaiting the imminent publication of a national code of conduct for local authority employees before introducing a code of conduct and a register of interests for police staff.

National Fraud Initiative (NFI)

The Audit Commission's data matching NFI exercise is designed to help identify and reduce housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud. The NFI is carried out every two years and data matches were provided to the Authority in January and April 2003.

The Authority has responded positively to the NFI 2002 data matching exercise by implementing generally sound arrangements that ensure that matches are investigated. The Authority could further improve its approach for future NFI rounds by:

- developing an overall strategy
- implementing a timetable covering the key stages in the process
- clearly documenting the reasons for selecting and/or discounting each category of data matches for further investigation.

These measures should ensure that best use is made of the data matches that are provided in future. To date the Authority has not identified any overpayments from this exercise.

Legality of transactions

The Authority's overall arrangements for ensuring the legality of financial transactions are already strong and plans are in place to further develop these through the introduction of a formal protocol.

Overall arrangements

During the year, we carried out a detailed review of the arrangements in place to provide assurance that the role of the monitoring officer (MO) is being discharged effectively. We concluded that the majority of expected arrangements were already in place and operating effectively. However, some scope to strengthen what are already well developed, but relatively informal, arrangements was also identified. The MO is aware of this and plans are in place to:

- introduce a protocol which will formalise existing arrangements
- update standing orders and financial regulations to reflect the role of the MO and the standards committee.

Accounts

We gave an unqualified opinion on the Authority's accounts for 2002/2003 in December 2003. The Authority is aware of the need to review closedown processes to ensure next year's earlier deadline for approving the accounts is met.

Timeliness

This year the financial statements were produced and approved on 10 September 2003, in advance of the statutory deadline of 30 September. The Authority recognises it needs to review closedown processes to ensure that they are sufficiently robust to meet the new 30 August deadline that will come into force in 2004.

Quality

The overall standard of the financial statements continues to improve, as shown by the reducing level of errors identified via the audit process.

To date the Authority has ensured compliance with FRS 17 (Retirement Benefits) through use of the Government Actuary's Department (GAD) model. However, the GAD model has not yet been approved for 2003/2004 and finance staff are aware of the potential need to make alternative arrangements.

Supporting records

The working papers produced to support the financial statements improved this year. We were grateful for the efforts made by finance staff to provide these in an electronic format. Experience gained from this exercise should help to ensure that tighter approval and audit deadlines for future years are met.

Reporting to the Authority

There is a new auditing standard which applies to our audit of your accounts - Statement of Auditing Standard (SAS) 610 'Reporting to those charged with governance'. This requires us to report issues arising from our audit to Members, in your case the Authority, before we give our audit opinion on your financial statements.

In previous years we have discussed such issues with officers rather than Members, but the SAS encourages openness and accountability by ensuring that Members take responsibility for the accounts.

We will report to the Authority under SAS 610 in January 2004. The significant matters we reported were:

- the need to draw up a formal loan agreement with Gateshead MBC
- documenting how interest rates on investments will be determined and approval of arrangements by the Authority.

Performance management

We report in this section, the results of our performance audit in 2002/2003 under the following headings:

- data quality
- activity based costing
- Best Value
- performance indicators
- use of resources.

Data quality

The Force and Authority have jointly achieved a high level of compliance with the national crime recording standard.

The introduction of the national crime recording standard (NCRS) in April 2002 has required police forces to adopt a consistent approach to crime recording, both between police divisions and between police forces. A key element of ensuring that consistency is the introduction of external review of crime recording. The Audit Commission undertook this national study of police authorities' arrangements to secure data quality and ensure compliance with the NCRS. The study has been carried out in partnership with the Police Standards Unit of the Home Office, and was based on local reviews carried out by the Commission's appointed auditors.

The approach consists of two elements:

- a review of crime records: to assess whether NCRS and Home Office counting rules are being properly applied by examining the data itself. This work is undertaken at each BCU in the force, and is the most important part of the review. It involves auditing crimes as they have been recorded, which may not necessarily have been checked and corrected via the force's quality control arrangements
- a review of management arrangements for crime data quality: identifying good practice and areas for improvement with the objective of advising forces on how to resolve any deficiencies highlighted in the crime data audit. This work considers both the force and authority perspectives on crime data quality.

On the basis of the reviews an assessment of 'green' (based on a traffic light reporting methodology) has been made for Northumbria, for the following reasons:

- crime records: summary results for the crime records audit indicate excellent performance in closing incidents on crime codes for all crime classifications. The greatest scope for improvement lies with disturbance and violent crime. The links between the crime recording system and incident system ensures excellent performance with regard to transferring incidents, closed on a crime code, from the incident log to the crime system in all BCUs
- management arrangements: arrangements are generally good, although there are some areas for improvement. For example, the development of audit systems for specialist departments and the continued move towards getting it right first time rather than relying on the system of checks in place.

Activity based costing (ABC)

The arrangements put in place by the Authority are fully compatible with the requirement to produce the activity based costing data in accordance with Home Office guidance.

The National Policing Plan made clear that all authorities and forces are expected to implement activity based costing (ABC) in 2003/2004. ABC is an essential tool in establishing the links between resources used and the policing outcomes delivered and is therefore a critical part of the policing performance assessment framework (PPAF) programme. ABC is intended to help forces and authorities to produce important information helping to:

- identify where resources are currently being used
- identify and monitor efficiency improvements
- justify business change and resource deployment
- maintain accountability and identify gaps between priorities
- assess comparative performance within and between forces.

The review is an assessment of the action plan submitted to the Home Office on 16 May 2003, and the supporting information and documentation behind the plan, against the guidance contained in the national police ABC model.

Our review of the arrangements put in place by the Authority showed that they are fully compatible with the requirement to produce the activity based costing data in accordance with Home Office guidance. A clear commitment to the development and implementation of ABC from both the Authority and the Force was also identified.

Sound management arrangements had been established to ensure that the transition to the new model was effective. The high return rate of 94% to the survey used to identify verifiable activity information was well in excess of that required by the HO model and clearly reflected the robust liaison arrangements in place between service units and the centre. The level of Police Authority involvement in the ABC exercise was also identified as an area of strength.

Overall, on the basis of the work undertaken, the submitted action plan was found to be compliant and consistent with national guidance. As a result, we gave the Authority's ABC arrangements a 'green' traffic light, which reflects well on the commitment of the Authority and the Force to delivering good quality activity based cost information.

Best value

Compliance

Once again, an unqualified opinion has been issued on the 2003/2004 BVPP, which continues to reflect Home Office guidance. Arrangements for producing robust, well evidenced, performance information remain strong.

We reported the findings from our audit of your 2002/2003 Best Value Performance Plan (BVPP) in last year's Annual Audit Letter. We have recently completed our audit of your 2003/2004 BVPP and have incorporated the findings within this Annual Letter.

Our statutory audit of your 2003/2004 BVPP showed that it was well designed, informative, communicated key performance messages to stakeholders and covered all of the key areas required by the Home Office. As a result we have issued an unqualified opinion in the statutory report on the 2003/2004 BVPP, which is included at Appendix 2.

Performance information

Our audit of your performance information is carried out in conjunction with our audit of your BVPP. We report in this Letter the significant matters arising from our audit of your 2002/2003 performance indicators, as reported in the 2003/2004 BVPP.

As in previous years, we found that performance information included within the BVPP was well supported and evidenced. It is clear that the high standards demonstrated last year have been maintained. This is supported by the findings from the Audit Commission's data quality work, which is referred to above.

Use of resources

We report in this Letter the findings from the specific reviews we have completed since our last Annual Audit Letter. Reviews that are ongoing will be reported in our 2003/2004 Annual Letter to Members.

E-policing

The Government set a target for all public service organisations to provide electronic service delivery (ESD) for all appropriate services by 2005. In order to meet this objective Northumbria Police made an invest to save budget (ISB) bid to fund development of an e-policing website. The ISB bid was successful and £542,600 was obtained to fund the project. Phase one of the project is complete and an interim evaluation has been carried out as specified in the Treasury guidance: Appraisal and Evaluation in Central Government.

The move to e-policing emphasises the importance of applying sound programme and project management principles to ensure that projects are delivered on time, in budget and in line with project objectives.

Our review of the management of the ongoing e-policing project concluded that the Authority had applied PRINCE 2 standards effectively in the majority of areas reviewed. We made a small number of recommendations for improvement and action has already been taken, or is underway, to reinforce the good practice already in place.

Efficiency plan

During the year, Her Majesty's Inspectorate of Constabulary (HMIC) continued to seek our assistance in monitoring the Authority's progress in delivering the cashable savings set out in the 2002/2003 efficiency plan.

Our work, and HMIC's own review, allowed HMIC to certify that the Authority had met its efficiency target.

Future audit work

Our audit programme for 2003/2004 is included in the Audit Plan 2002/2004 which was issued in July 2003. The key areas of audit work to be completed in 2003/2004 are:

- performance management
- project management
- partnership working.

We will discuss the timetable for planning the 2004/2005 audit with officers early next year.

Status of our Annual Audit Letter

Our Annual Audit Letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Annual Audit Letters are prepared by appointed auditors and addressed to Directors and officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Director or officer in their individual capacity, or to any third party.

Closing remarks

This Letter has been discussed and agreed with the Chief Officer and the Treasurer. A copy of the Letter will be provided to all Members and will be presented to the Authority in January 2004.

Finally, I would like to take this opportunity to express my appreciation for the assistance and co-operation provided during the course of the work. Our aim is to deliver a high standard of audit which makes a positive and practical contribution which supports the Council's own agenda. We recognise the value of your co-operation and support.



David Jennings
Relationship Manager and District Auditor

December 2003

Reports issued during the 2002/2003 audit

Product	Issued
Audit Plan	July 2003
Activity Based Costing	July 2003
Review of Crime Recording (Data Quality)	July 2003
S151 Officer Assurance Framework	September 2003
Review of IT Project Management Arrangements (E-policing)	October 2003
ICT Risk Assessment	October 2003
Role of the Monitoring Officer	November 2003
Audit of BVPP and BVPIs	December 2003
SAS 610 Reporting to Those Charged with Governance	December 2003
Final Accounts Memorandum	December 2003

Auditor's statutory report on the Best Value Performance Plan

Auditor's report to Northumbria Police Authority on its Best Value Performance Plan for 2003/2004

Certificate

I certify that I have audited Northumbria Police Authority's Best Value Performance Plan in accordance with section 7 of the Local Government Act 1999 (the Act) and the Audit Commission's Code of Audit Practice. I also had regard to supplementary guidance issued by the Audit Commission.

Respective responsibilities of the Authority and the auditor

Under the Act the Authority is required to prepare and publish a Best Value Performance Plan summarising the Authority's assessments of its performance and position in relation to its statutory duty to make arrangements to secure continuous improvement to the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The Authority is responsible for the preparation of the plan and for the information and assessments set out within it. The Authority is also responsible for establishing appropriate performance management and internal control systems from which the information and assessments in its plan are derived. The form and content of the Best Value Performance Plan are prescribed in section 6 of the Act and statutory guidance issued by the Government.

As the Authority's auditor, I am required under section 7 of the Act to carry out an audit of the Best Value Performance Plan, to certify that I have done so, and:

- to report whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Act and statutory guidance and, where appropriate, recommending how the plan should be amended so as to accord with statutory requirements
- to recommend:
 - where appropriate, procedures to be followed in relation to the plan
 - whether the Audit Commission should carry out a Best Value inspection of the Authority under section 10 of the Act
 - whether the Secretary of State should give a direction under section 15 of the Act.

Opinion

Basis of this opinion

For the purpose of forming my opinion whether the plan was prepared and published in accordance with the legislation and with regard to statutory guidance, I conducted my audit in accordance with the Audit Commission's Code of Audit Practice. In carrying out my audit work, I also had regard to supplementary guidance issued by the Audit Commission.

I planned and performed my work so as to obtain all the information and explanations which I considered necessary in order to provide an opinion on whether the plan has been prepared and published in accordance with statutory requirements.

In giving my opinion I am not required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by the Authority. My work therefore comprised a review and assessment of the plan and, where appropriate, examination on a test basis of relevant evidence, sufficient to satisfy me that the plan includes those matters prescribed in legislation and statutory guidance and that the arrangements for publishing the plan complied with the requirements of the legislation and statutory guidance.

Where I have qualified my audit opinion on the plan I am required to recommend how the plan should be amended so as to comply in all significant respects with the legislation and statutory guidance.

Unqualified opinion

In my opinion, Northumbria Police Authority has prepared and published its Best Value Performance Plan in all significant respects in accordance with section 6 of the Act and statutory guidance issued by the Government.

Recommendations on procedures followed in relation to the plan

Where appropriate, I am required to recommend the procedures to be followed by the Authority in relation to the plan.

Recommendations on referral to the Audit Commission/Secretary of State

I am required each year to recommend whether, on the basis of my audit work, the Audit Commission should carry out a Best Value inspection of the Authority or whether the Secretary of State should give a direction.

On the basis of my work:

- I do not recommend that the Audit Commission should carry out a Best Value inspection of Northumbria Police Authority under section 10 of the Act
- I do not recommend that the Secretary of State should give a direction under section 15 of the Act.

David Jennings



Date December 2003

Relationship Manager and District Auditor