

Annual Audit Letter

Kent Police Authority

Audit 2009/10

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

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

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements (page 3);
and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 5 to 8).**

Audit opinion and financial statements

1 I issued an audit report including an unqualified opinion on the financial statements on 24 September 2010. The financial statements submitted for audit were generally of a good quality, but contained a number of errors and omissions that management have corrected.

2 I have identified and reported some improvements that could be made to the accounts closedown and preparation process. The Audit and Governance Committee has considered these as part of its governance responsibilities.

Value for money

3 I issued an unqualified value for money conclusion stating that the Authority has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources during the year ending 31 March 2010.

Current and future challenges

4 The Force has managed its financial budgets well over the last year, despite the financial challenges posed by the recession. The economic downturn and recent comprehensive spending review are however imposing unprecedented financial pressures on the public sector. The Authority and Force have worked together over the last year on a prudent financial strategy that aims to minimise the impact of budget cuts on front-line services. Members and officers are working through the difficult choices which they will need to make in service delivery.

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. I gave an unqualified opinion on the Authority's 2009/10 financial statements on 24 September 2010.

Overall conclusion from the audit

5 The Authority's financial statements submitted for audit were complete and approved by the deadline of 30 June. The statements were generally of a good quality but contained a number of errors, two of which were material, and some omissions. All items identified through the audit were amended by officers, and the revised accounts were reapproved by the Audit and Governance Committee in September.

6 During my audit I made three recommendations to the Audit and Governance Committee in relation to the financial statements:

- improve closedown procedures for capital transactions accounting;
- complete the CIPFA disclosure checklist as part of the closedown process; and
- investigate and resolve the variance between the financial statements and underlying working papers for deferred government grants.

Significant weaknesses in internal control

7 I did not identify any significant weaknesses in your internal control arrangements. However, I did report two matters to the Audit and Governance Committee:

- to ensure that all year-end journal transfers are properly authorised; and
- To introduce a more formal documented agreement for the provision of the Authority's treasury management service.

8 The Authority has accepted all the recommendations in my Annual Governance Report, and the action plan will be monitored by the Audit and Governance Committee.

9 The Authority had £11.1 million placed with Icelandic banks when they collapsed in October 2008. This exposure has since reduced to £10 million. It is still exposed to an element of uncertainty regarding the return of these investments. In its financial statements for 2009/10 it impaired these funds in line with the latest guidance from CIPFA. The Authority has identified that at some stage a significant loss may need to be recognised. It has taken steps to defer the impact of any loss on the General Fund and minimise any future impact on service delivery.

International Financial Reporting Standards

10 From 2010/11 the Authority's financial statements will be based on International Financial Reporting Standards (IFRS). The transition to IFRS has proved problematic for the private sector due to additional reporting demands. Early preparation is vital to successful implementation of the new standards. *Restating the 2009/10 financial statements is a key stage in moving to IFRS compliant accounts in 2010/11.*

11 I assessed the Authority's preparations for the transition in June 2010 as 'Red risk'. While the Authority has prepared a comprehensive implementation plan, and has provided some training for Members and officers, at the time of completing my review little progress had been made in undertaking the necessary preparatory work. The Authority is well behind its timetable for final production of the accounts in June 2011.

12 Since my assessment significant progress has been made. The Authority has identified the most complex areas for review, including accounting for leases and is putting suitable time aside to deal with these. I will continue to work with the Authority over the coming months as it prepares its restated accounts.

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 (VFM) conclusion.

2009/10 use of resources assessments

13 At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on comprehensive area assessment would cease with immediate effect. The Commission would no longer issue scores for its use of resources assessments.

14 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 to inform my 2009/10 conclusion.

15 I report the significant findings from the work I have carried out to support the vfm conclusion.

VFM conclusion

16 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. I concluded that the Authority has adequate arrangements and issued an unqualified VFM conclusion. This is shown below.

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
Risk management and internal control	Yes
Managing resources	
Natural Resources	Yes

17 Key findings from my review are set out below.

Managing Finances

18 *Financial planning and health:* The Authority and Force have fully integrated financial planning with priorities over the medium to long term which has enabled them to cope well with the recession. The Policing Plan and budget are based on thorough and innovative engagement with the local community. Finances continue to be concentrated on priority areas, such as neighbourhood policing, producing significant improvements in performance and public satisfaction. The annual budgets were achieved, although it is becoming increasingly difficult to achieve savings targets and there is an element of efficiency savings still to be identified in 2010/11.

19 *Understanding costs and performance:* Kent Police provides good value for money to local taxpayers. Although policing costs are slightly above average compared to similar forces, the cost per Kent household is low with less than average contribution coming from local council taxes. Robust data systems support decision making. The Force uses a number of mechanisms to assess the efficiency of its processes. Business process re-engineering is delivering service improvements and savings. It has invested in the ability for police officers to access information on patrol, increasing officer time to frontline activities. This is highlighted as good practice in the 2009 inspection by Her Majesty's Inspectorate of Constabulary (HMIC).

20 *Financial reporting:* The Authority produces reports that integrate financial and performance information, and these are used to support forecasting and decision making. Unplanned variances are examined promptly, and monitoring is focused on high risk budgets. Financial risks associated with significant partnerships are monitored effectively. The Authority's accounts are prepared on a timely basis, statutory deadlines and standards have been met although the number of errors increased in 2009/10. The Kent Police and separate Authority websites are easy to navigate and contain sufficient financial and budget information to inform visitors.

Governing the Business

21 *Commissioning services:* Kent Police has a clear vision of what the community wants and how the police will deliver this to local residents. It is one of only eight forces to be assessed as 'good' in meeting the Policing Pledge. It is committed to working with partners to improve customer experience, and is working well to shape the demand and supply market. It is leading efforts to deliver a joint crime recording system for four forces, and the development of a standardised cost benchmark for forces in the South East. The collaboration with Essex is beginning to achieve clear efficiency savings.

22 *Data quality:* Good data quality processes underpin performance monitoring, and partnership data is accurate and reliable. The Force has a strong culture of using information to support performance and drive forward improvements, for example in customer care. The Force has implemented an innovative quality control process to ensure that customers are happy with the service they receive from the police. It has developed its own analysis tools which provide officers with the information to understand performance levels. The data is displayed in easy to understand formats and readily available via the Force's intranet system

23 Governance: Kent Police has a sound governance framework. All expected codes, constitutional arrangements and procedures are in place, operating effectively and actively promoted via the website. There is a robust level of challenge provided by the Authority to the financial planning and performance management of the Force. The framework is supported by a proactive Professional Standards Division. There are excellent working relationships between the Authority, the Force and external partners as evidenced by the active participation of members at Force meetings. The Chair & Chief Constable engage well with the community, and have successfully delivered their joint vision in the policing plan.

24 Risk management: The Authority and Force have strengthened risk management arrangements, with senior officers and members being fully aware of risks. The force risk register includes partnership working, enabling risk to be mitigated more effectively. The clear strategy for managing fraud and corruption is overseen by the Professional Standards Division who widely publicise convictions. There is a strong system of internal control with a highly effective Audit and Governance Committee.

Managing Resources

25 Kent Police is developing its strategic response to reducing carbon emissions. It is one of only two police forces that has signed up to the LACMP through the Carbon Management Trust. Its Carbon Management Plan came into effect on 1 April 2010, and sets a target of reducing carbon by 35 per cent over the next five years, increasing to a 50 per cent reduction in ten years. It is too early to measure the impact it will have on the way the Force operates.

26 Baselines for energy usage have been established, however water usage still needs to be incorporated. Good initiatives to manage energy performance are taking place but many of these are in the early stages and it is too early to measure outcomes. Environmental audits (healthchecks) have taken place at Force headquarters, Kent Police College, Maidstone BCU and Folkestone BCU and the recommendations have informed plans to reduce energy. The Force has received funding from the Carbon Trust to implement energy saving technologies such as voltage optimisation devices.

27 The Force is working well to address the negative impact of car travel with car sharing and bike to work initiatives, but it is unclear how much car commuting mileage has been saved from these initiatives. The "green guardian" scheme was launched on 26 Nov 2009. The scheme uses staff as "advocates" working to educate, inform and identify energy saving opportunities. The Force currently has 40 guardians across the organisation in different functions who meet twice a year. However although the scheme has been well received by staff, the philosophy of energy reduction, eg through switching off computers overnight, needs to be mainstreamed into the way the Force operates.

Approach to local value for money work from 2010/11

28 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 of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

29 My work will be based on a reduced number of reporting criteria, specified by the Commission, concentrating on:

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

30 For your audit, I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of my local VFM audit work and the key messages for the Authority in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

Future developments

31 Across the country, police services face severe and long term social and financial challenges over the next few years. The recent comprehensive spending review confirmed that central government police funding will reduce by 20 per cent in real terms over the next four years. For Kent Police, this equates to £53 million recurring savings required by 2014/15. It is expected that two thirds of these savings will need to be achieved by 2012/13.

32 This will present a challenge to the Authority and Force for the coming years in preserving services to local residents, keeping a sound financial position and delivering value for money.

33 While your forecasts take account of some aspects of the national picture, some uncertainties remain. You have undertaken a comprehensive exercise to identify savings for the period 2010/11 to 2012/13, and are now looking to revise these plans to address the impact of the spending review. A savings target of £10.6 million had already been set in respect of 2010/11.

34 My audit team and I will work with you over the coming months, sharing good practice where appropriate and providing support as a "critical friend" where we can.

Police reform

35 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 the police force area and hold Chief Constables to account for the constabulary's performance. A Police and Crime Panel are to have overview and scrutiny powers over the Commissioner.

36 National reports this year based on inspections of 22 police authorities (excluding Kent Police Authority, which was a pilot for these inspections) 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 VFM and collaboration.

These weaknesses do not apply to Kent Police Authority.

37 The transition from police authorities to PCCs raises several risks, including a potential lack of focus on strategic leadership and achieving value for money. Authorities will need to ensure, as much as possible, a stable legacy to hand on and should review their:

- capacity to ensure members and officers have the vision, drive and ability to deal with the risks, associated with this change;
- strategic direction to focus on key priorities ensuring the constabulary preserves performance with fewer resources;
- scrutiny role in both engaging with and challenging the constabulary to achieve VFM; and
- governance role in upholding key financial controls during major organisational change.

38 I am satisfied that the Kent Police Authority is working with the Force to proactively address all the strategic and operational issues raised by the abolition of the Authority. A Members' Briefing Session was held in October, and key issues and risks identified for discussion by the Authority. I will monitor your progress over the next year, and pass on good practice where appropriate

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

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

- 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);
- 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).

40 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 both police authorities and constabularies to review current ways of service delivery to meet public expectations in future years

41 The national reports recommend that authorities and constabularies should test their own arrangements against the report to assess if they are delivering value for money and meeting the characteristics displayed by those police authorities that are performing well. I will assist the Authority in this process over the coming months.

Closing remarks

42 I have discussed and agreed this letter with the Chief Executive and the Treasurer. I will present this letter at the Audit and Governance Committee on 24 November 2010 and will provide copies to all members.

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

Report	Date issued
Audit Fee Letter	June 2009
Opinion Audit Plan	June 2010
Annual Governance Report	June 2010

44 The Authority and Force have taken a positive and helpful approach to our audit. I wish to thank the Authority and Force staff for their support and cooperation during the last year.

Darren Wells
District Auditor
November 2010

Appendix 1 – Audit fees

	Actual (£)	Proposed (£)	Variance (£)
Financial statements and annual governance statement	75,319	75,319	0
Value for money	22,786	22,786	0
Whole of Government Accounts	2,856	2,856	0
Total	100,961	100,961	0

Appendix 2 – Glossary

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 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 they have been prepared 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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