

Government and Public Sector

November 2009

Cambridgeshire Police Authority

2008/09 Annual Audit Letter

The Members
Scrutiny and Audit Committee
Cambridgeshire Police Authority
Cambridgeshire Constabulary Headquarters
Hinchingsbrooke Park
Huntingdon
Cambridgeshire
PE29 6NP

November 2009

Ladies and Gentlemen

We are pleased to present our Annual Audit Letter summarising the results of our 2008/09 audit. We look forward to presenting it to Members on 9 December 2009.

Yours faithfully



PricewaterhouseCoopers LLP

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Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In April 2008 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

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Executive summary

The key matters referred to in this audit letter are:

- We issued an unqualified audit opinion on the 2008/09 accounts on 29 September 2009 (page 6).
- We were required to issue a conclusion on the adequacy of the Authority's arrangements for ensuring economy, efficiency and effectiveness in its use of resources. We issued an unqualified conclusion on the Authority's arrangements for its Use of Resources on 29 September 2009 (page 11).
- The Police Use of Resources (UoR) assessment score of 2: Meets only minimum requirements – performs adequately (pages 9-11).
- Overall, the Authority continued to consolidate and embed the improvements made during the 2007/08 accounts preparation and audit process and the Authority has adequate reserves available (page 6).
- In our Internal Financial Control Report 2008/09 we made several recommendations for improvement in controls in the main financial systems and IT security controls. We are pleased that management has agreed to take action to address these issues and we will follow up on the progress that has been made during our audit work in 2009/10 (page 12).
- The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued a consultation paper on a new Code of Practice on Local Authority Accounting in the United Kingdom 2010. This will apply to accounting periods starting on or after 1 April 2010. This new Code is the first to be prepared under International Financial Reporting Standards (IFRS). The Authority should be congratulated for the early preparations it has undertaken for the implementation of IFRS in respect of its financial statements from 2010/11. We have also undertaken an IFRS Impact Assessment review that was presented and discussed with officers of the Authority and Force on 16 April 2009 (pages 6-7).
- The expected state of public finances during 2010 to 2015 is likely to result in a difficult period for the public sector, which will require careful management of budgets, identification of efficiency savings and new ways of working to deliver more, or the same level of service, for less input (page 8).
- We are pleased to note the continued good relationship with the Scrutiny and Audit Committee in respect of the consideration and discussion of our reports, as well as the subsequent actions to address and follow up on the progress of identified issues made during our audit work in 2008/2009.

Introduction

The purpose of this letter

- 1 The purpose of this letter is to provide a high level summary of the results of the 2008/09 audit work we have undertaken at Cambridgeshire Police Authority that is accessible for Members and other interested stakeholders.
- 2 We have already reported the detailed findings from our audit work to those charged with governance in the following reports:
 - Review of Internal Financial Controls 2008/09 (September 2009);
 - Report to those charged with Governance (ISA (UK&I) 260) (September 2009);
 - Audit opinion for 2008/09 financial statements, incorporating the conclusion on Use of Resources (September 2009);
 - Audit of the Statement of Accounts for the year ended 31 March 2009 (October 2009); and
 - Use of Resources – assessment results (October 2009).
- 3 The matters reported here are those that we consider are most significant for the Authority and Force, and a summary of the key recommendations that we have made can be found on page 13.

Scope of work

- 4 Our audit work is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.
- 5 The Authority is responsible for preparing and publishing its financial statements, including the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
- 6 As auditors we are responsible for:
 - Forming an opinion on the financial statements;
 - Reviewing the Authority's Annual Governance Statement;
 - Forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
 - Undertaking any other work specified by the Audit Commission.
- 7 Our 2008/09 audit work has been undertaken in accordance with the Audit Plan that we issued in November 2008 and presented to you on 26 February 2009.

Key matters arising from the audit of the accounts

Introduction

- 8 The Audit Commission Code of Practice requires us to form an opinion as to whether the Statement of Accounts presents fairly the financial position of the Authority and its income and expenditure for the year, and whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards. This section summarises the results of our audit work in relation to the Statement of Accounts for the year ended 31 March 2009.

Accounts preparation and audit process

- 9 We audited the Authority's accounts in line with approved Auditing Standards and issued an unqualified audit report on 29 September 2009. This followed the Authority's approval of the accounts in June 2009, before the 30 June 2009 statutory deadline.
- 10 Overall, the Authority continued to consolidate and embed the improvements made during the 2007/08 accounts preparation and audit process. As a result, the number of amendments to the draft accounts was fewer and their value not considered material. However, we needed to input greater audit resource this year to ensure the appropriate accounting entries for the FRS 17 pension costs and injury award payments. This was a national issue on accounting for police pensions that had been raised by the Audit Commission. We are meeting with the Force Finance Team in December 2009 to discuss and agree arrangements going forward for the 2009/10 accounts preparation.
- 11 In addition to the above, during our audit we identified a number of less significant matters which we have reported and raised recommendations that management will need to consider when producing future years' accounts, or where improvements can be made. We are in the process of agreeing our draft report to management on the statement of accounts 2008/09.

Transition to International Financial Reporting Standards (IFRS)

- 12 The Authority should be congratulated for its work on preparing for the implementation of IFRS in its financial statements from 2010/11. Prior year comparatives will be required to support these financial statements and the Authority's Whole of Government Accounts schedules will also need to be prepared on this new basis from 2009/10. This will require a restatement of the Authority's balance sheet under IFRS as at 1 April 2009, which we understand from officers is in progress and will form part of our 2009/10 audit work.
- 13 During 2008/09 we undertook an IFRS Impact Assessment review that was presented and discussed with officers of the Authority and Force on 16 April 2009. Our preliminary study was intended to inform the set-up of the Authority's IFRS transition project. We considered those areas that were likely to have the most significant implications for the Authority in terms of the likely impact on the reported financial position and the amount of staff time required to generate IFRS-based financial statements and working papers. We identified the key areas of work that

we considered the Authority will need to undertake in order to prepare IFRS-compliant financial statements namely:

- Fixed Asset Accounting;
- Leases;
- Employee Benefits; and
- Operating Segments.

14 CIPFA has issued the Exposure Draft and Invitation to Comment on the Code of Practice on Local Authority Accounting in the United Kingdom 2010. This will apply to accounting periods starting on or after 1 April 2010. The new Code is the first to be prepared under IFRS. Because of the need to have comparative information for the first set of full IFRS accounts the effective date of the transition is 1 April 2009.

15 To assist the Authority in its 2010/11 budget setting process, it will also be important that the Authority understands and calculates the impact of IFRS on its financial reporting at an early stage to enable the 2010/11 budget to be prepared on this basis.

16 The Authority will need to ensure that it has a good grasp of the changes to accounting requirements under the new Code, and that it has robust plans in place to enable collection and processing of the information needed to comply with the relevant guidance. In our experience the key features of a successful IFRS conversion project have proven to be:

- The commitment of key stakeholders in the organisation;
- Operational steering and technical groups;
- Audit committee oversight;
- Regular progress reporting against the plan;
- The necessary project management resources; and

- Appropriate and timely training for all members and officers with IFRS involvement.

Financial standing

17 In 2008/09 the Authority had an underspend of some £0.7m (underspend of £3.274m in 2007/08) or 0.6% of budget requirement of £120.7m (£116m in 2007/08). The underlying reasons for the underspending in 2008/09 have previously been reported in detail to the Finance and Resources Committee in June 2009. The main factors were due to shortfalls in strength against establishment for both Police Officers and Police Staff

18 Overall the Authority's total reserves remained constant in the year, £11.80m at 31 March 2009 compared with £11.81m for the previous year.

19 The balance on the general reserve as at 31 March 2009 amounts to £4.599m (£6.536m at 31 March 2008). This represents 2.77% of 2008/09 net operating expenditure (4.2% in 2007/08) and 3.8% of the 2008/09 net budget requirement (5.6% in 2007/08) and therefore remains in line with the Authority's approved reserves policy of 2% to 6%.

Reserves	31 March 2007 (£m)	31 March 2008 (£m)	31 March 2009 (£m)
General Fund	6.56	6.54	4.60
Earmarked Reserves	1.20	5.27	7.20
TOTAL	7.76	11.81	11.80

20 In overall terms, the Authority continues to maintain an adequate control over its financial resources and this is reflected in its Use of Resources assessment scores.

Financial outlook

- 21 The national and global economy has continued to provide challenges to all aspects of society, including the Authority and Force. The expected state of public finances during 2010 to 2015 is likely to result in a difficult period for the public sector, which will require careful management of budgets, identification of efficiency savings and new ways of working to deliver more, or the same level of service, for less resource. It will be important for the Authority and Force to continue to carefully monitor its performance against budget in 2009/10 and set a budget for 2010/11 which is based upon a prudent analysis of risk and the economic environment.

Key matters arising from the consideration of the Authority's and Force's Use of Resources

Use of Resources

22 From April 2009, the Audit Commission has been implementing the comprehensive area assessment (CAA), jointly with the other public service inspectorates. The audit year 2008/09 is the first year of the transition to CAA. Our use of resources judgements in 2008/09 will therefore input into the first results of CAA which the Audit Commission will report on in December 2009, as well as act as the basis for our value for money conclusion.

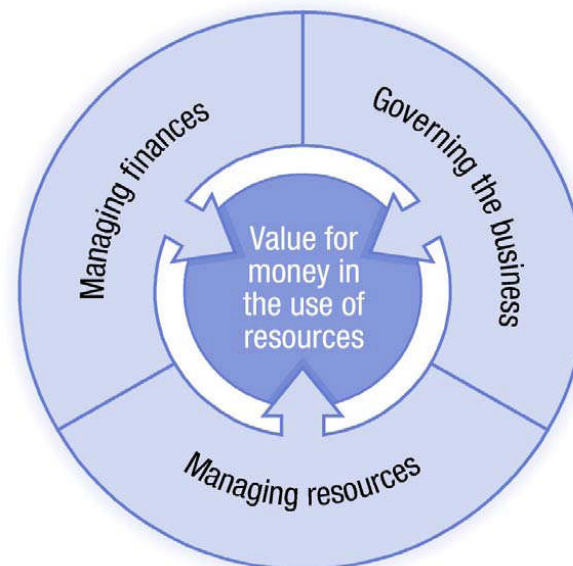
23 We acknowledge and are grateful for the input provided from the Authority and Force, given the tight timescales during this first year of the new assessment.

24 We have assessed the Authority and Force's arrangements against a series of new Audit Commission Key Lines of Enquiry (KLoEs) grouped into three themes which form the Use of Resources framework, namely;

- Managing finances
- Governing the business.
- Managing Resources.

25 This year's UoR assessment is not comparable with previous UoR assessments since the focus has changed from assessing not only

whether key arrangements are in place, but the impact of those Authority and Force arrangements in practice, as demonstrated by evidence of relevant outcomes.



26 We evaluated the Authority's and Force's arrangements against criteria set by the Audit Commission in the underlying KLoEs in order to reach a

score for each based on the following:

- 1 Failure to meet minimum requirements - inadequate performance;
- 2 Meets only minimum requirements - performs adequately
- 3 Exceeds minimum requirements - performs well; or
- 4 Significantly exceeds requirements - performs excellently.

27 The scores have been subject to national and local quality assessment to ensure consistency of approach and scoring by auditors. The scores for these KLoEs then determine the overall score for each theme, using rules issued by the Audit Commission. The Audit Commission has informed the Authority of the overall UoR score for the Authority and Force on 14 September 2009 namely: 2 - Meets only minimum requirements - performs adequately

Managing Finances

28 We have scored the KLoEs for managing finances reporting as follows:

Key Line of Enquiry		Score
1.1	The organisation plans its finances effectively to deliver its strategic priorities and to secure sound financial health	2
1.2	The organisation has a sound understanding of its costs and performance and achieves efficiencies in its activities	2
1.3	The organisation's financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people	2

29 We identified the following key areas for improvement on managing finances in respect of demonstrable evidence of:

- Scenario planning for a range of financial outcomes and consideration of the wider social, environmental and economic

factors on significant financial decisions.

- Provision of financial training to Members and Force during the year.
- Use of activity based cost information to understand areas of high cost against comparator authorities.
- The Authority analysing or assessing the local requirements and/or needs to provide or publish differing formats of public reports on the website.

Governing the business

30 We have scored the KLoEs for governing the business as:

Key Line of Enquiry		Score
2.1	The organisation commissions and procures quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money.	2
2.2	The organisation produces relevant and reliable data and information to support decision making and manage performance	2
2.3	The organisation promotes and demonstrates the principles and values of good governance	2
2.4	The organisation manages its risks and maintains a sound system of internal control	3

31 We identified the following key areas for improvement on governing the business.

- Ensure compliance within the Authority's and Force's supply chains in respect of environmental and diversity requirements, to demonstrate that Authority and Force objectives are being delivered.
- Improvements are also required in relation to developing performance measures, reviewing service competitiveness and

demonstrating Value for money (VfM) in the procurement process.

- Robust and consistent contract monitoring is required to ensure appropriate performance is secured from procurement contracts.
- Ensure that benchmarking activities are contributing to demonstrable outcomes.
- Demonstrable evidence is required of the effectiveness of the Authority and Force's partner risk management practices to promote/support delivery of the Authority and Force's objectives.
- Ensure that evidence is available, or that a proactive review programme is undertaken to validate third party data when it is received and used by the Authority/Force.
- Further work is required to put in place an overarching business continuity plan and continue to improve existing departmental plans where issues are identified from testing.

Managing resources

32 We have scored the KLoEs for managing resources as:

Key Line of Enquiry		Score
3.1	The organisation makes effective use of natural resources.	n/a*
3.2	The organisation manages its assets effectively to help deliver its strategic priorities and service needs.	n/a*
3.3	The organisation plans, organises and develops its workforce effectively to support the achievement of its strategic priorities	2

* KLoE 3.1 and 3.2 are not specified KLoEs for 2008/09 for Police Authorities and so the Authority and Force were not assessed against these in 2008/09. The Authority and Force will be assessed against KLoE 3.1 (Natural Resources) in 2009/10 for the first time.

33 We identified the following key areas for improvement on managing resources.

- A 'Recognition strategy' describes how the Force's Human Resource function ensures that the Force has 'the right people in the right place at the right time with the right skills doing the right things'. However, further evidence is required to demonstrate the outcomes arising from this strategy and the impact on the Authority and Force's activities, as well as objectives.
- Assess the impact of the Force's workforce planning and succession planning strategies, as well as evidence of joint workforce planning arrangements with other organisations or other public sector partners that demonstrate benefits are being achieved.
- Significant work has been undertaken to recruit Police Community Support Officers from different ethnic backgrounds to assist closer working with a wide range communities. However, further work is required to demonstrate whether local equality standards are being met and how progress is being made in building a workforce that broadly represents the community, including at senior levels.

Conclusion on Use of Resources

34 We were also required to issue a conclusion on the adequacy of the Authority's arrangements for ensuring economy, efficiency and effectiveness in its use of resources.

35 We issued an unqualified conclusion on the Authority's arrangements for its Use of Resources on 29 September 2009.

Annual Governance Statement

36 Police Authorities are required to produce an Annual Governance Statement (AGS) which is consistent with guidance issued by CIPFA and Society of Local Authority Chief Executives (SOLACE). The AGS was included in the financial statements.

- 37 We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE guidance and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Internal Financial Controls

- 38 In our Internal Financial Control Report 2008/09 we made several recommendations for improvement in respect of access to, and reconciliations between the overtime and payroll systems, as well as issues relating to some IT security controls and the timing of the input of the Budget into the General Ledger. We are pleased that management has agreed to take action to address these issues and we will follow up on the progress that has been made during our audit work in 2009/10.
- 39 We have agreed an Internal and External Audit Protocol with RSM Bentley Jennison, and during this first year of working together have developed good liaison arrangements. As a result, we have sought to work with Internal Audit so that together we can co-ordinate the tests of controls performed by Internal Audit and been able to ensure that we can place maximum reliance on the work undertaken by Internal Audit and avoid duplication.

Treasury Management

- 40 As part of our work on Use of Resources, we carried out a programme of work on Treasury Management. This piece of work was mandated by the Audit Commission. No significant issues arose from this review. In summary, the Authority's strategy on Treasury Management appears prudent in the current volatile conditions that have followed since the collapse of the Icelandic Banks. The Authority has reviewed the strategy to ensure it meets the *Code of Practice for Treasury Management*. We will continue to work with the Force Finance Team and Treasurer during the 2009/10 audit and further review arrangements in the light of CIPFA guidance when published.

Members' Allowances

- 41 As part of our work on Use of Resources we reviewed the Authority's *Scheme for Members' Allowances*. We reviewed whether the Authority is complying with the regulations applying to Members' Allowances schemes, and whether they have made the required disclosures in respect of the scheme. No issues arose from the review.

Summary of recommendations

Page	Recommendation	Management Response	Target Implementation Date
7	<p>The Authority and Force will need to ensure that it has a good grasp of the changes to accounting requirements under the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2010, and that it continues to have robust plans in place to enable collection and processing of the information needed to comply with the relevant guidance, as well as:</p> <ul style="list-style-type: none"> • The commitment of key stakeholders in the organisation; • Operational steering and technical groups; • Audit committee oversight; • Regular progress reporting against the plan; • The necessary project management resources; and • Appropriate and timely training for all members and officers with IFRS involvement. 	<p>Impact assessment commissioned from PWC and completed. Impact paper prepared and submitted to Scrutiny and Audit Committee (9th September 2009). Officer training and awareness covered by attendance at CIPFA and PWC seminars and conferences. Detailed timetable for IFRS convergence drafted. Employee accrual data collection exercise completed and Fixed Asset data cleansing underway.</p>	2009/10 Closedown
8	<p>The expected state of public finances during 2010 to 2015 is likely to result in a difficult period for local government, which will require careful management of budgets, identification of efficiency savings and new ways of working to deliver more, or the same level of service, for less input.</p>	<p>The Finance and Resources Committee have already looked (Oct 09) at the Medium Term Financial Plan (2010/13). The MTFP looks at possible reduced funding scenarios in 2011/13 and work is in hand to look at options for cost reduction. The Authority will approve the 2010/11 budget in February 2010. Work is likely to continue after that on those options.</p>	February 2010 and beyond

Page	Recommendation	Management Response	Target Implementation Date
10-11	<p>We recommend that the Authority and Force give further consideration to demonstrating evidence of outcomes in respect of each of the key Use of Resources themes of:</p> <ul style="list-style-type: none"> • Managing Finances; • Governing the business; and • Managing Resources. 	Agreed	Ongoing
12	<p>We recommend that the Authority and Force:</p> <ul style="list-style-type: none"> • Continues to keep its treasury management arrangements under review and takes action as necessary to address any risks as soon as they are identified. • Reviews the CIPFA guidance on treasury management when it is issued and takes action as necessary. 	<p>The Treasury Management policy is under almost daily review even though the 'darkest days' seem to have passed. The normal TM report will be considered by the Authority as part of the budget setting routine.</p> <p>The Authority will review all aspects of the TM policy and the training of staff/members in the light of the recently updated CIPFA guidance.</p> <p>The Treasury Manager has just enrolled on the new approved course and will undertake the training in the new year</p>	March 2010.

In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), you are required to disclose any information contained in this report, we ask that you notify us promptly and consult with us prior to disclosing such information. You agree to pay due regard to any representations which we may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such information. If, following consultation with us, you disclose any such information, please ensure that any disclaimer which we have included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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