

Annual Audit Letter

Lincolnshire 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; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

I have included only significant recommendations in this report. The Authority has accepted these recommendations.

Audit opinion and financial statements

1 You can take assurance from the fact that I was able to give an unqualified opinion on the financial statements on 29 September 2010.

2 From next year the Authority will prepare its financial statements for the first time under International Financial Reporting Standards (IFRS). There has been slippage in the original project plan timetable and there is still much to be done. However, you have brought in some external assistance since September and are still anticipating that you will meet the required deadlines. It is important that the Authority continues to monitor progress over the next few months.

Value for money

3 I have also given an unqualified value for money conclusion as you have adequate processes in place to manage and use your resources to deliver value for money.

Current and future challenges

4 Across the country, the public sector is facing 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 by 2014/15. In addition, police authorities are also faced with abolition from 2012 following the government announcement to introduce directly elected Police and Crime Commissioners (PCCs).

5 While your forecasts take account of some aspects of the national picture, some uncertainties remain, in particular the national grant settlement for each police authority. The Authority has already seen in year reductions to its revenue budget of £900,000 and capital budget of £100,000 and you are now looking to revise plans for the next three years to address the impact of the spending review.

6 Recognising the difficult circumstances faced by the police service a number of national reports have been issued recently looking at the future of value for money and governance in policing. These reports recognise the success of the service in reducing crime and increasing public confidence but also challenge both police authorities and forces to review current ways of service delivery to minimise the impact of reduced funding.

7 You have recognised the need to change and are working with the Chief Constable to draw up plans to review service delivery under the new conditions. It is critical that the Authority continues to play its role in shaping the delivery of policing for the future even if your own future is uncertain.

Financial statements and annual governance statement

The Authority's 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 29 September, within the statutory target date.

Overall conclusion from the audit

8 I issued an audit report including an unqualified opinion on the financial statements on 29 September 2010.

9 I reported the detailed findings from my audit of the Authority's 2009/10 accounts in my annual governance report to the Audit, Risk and Governance Committee. Good quality working papers supported the draft financial statements and officers responded promptly to any queries raised during the course of the audit. As a consequence it was possible to complete a substantial part of the audit early.

10 A number of amendments were required to the draft statements but these were mostly linked to the allocation of income across the service areas within the income and expenditure account.

Significant weaknesses in internal control

11 I did not identify any significant weaknesses in your internal control arrangements.

Readiness for IFRS

12 From 2010/11 the Authority will prepare its financial statements for the first time under IFRS. Implementation of IFRS will be a major challenge and will require substantial preparatory work.

13 The Audit Commission has issued several briefing papers highlighting key aspects of the change to authorities and I have reviewed your progress in key technical areas as part of a national survey. I have been concerned by the lack of progress over the summer when you were awaiting the appointment of external advisors to assist you in your preparations.

14 The delay in appointment has caused slippage against your original plans and the key challenges facing the Authority are:

- restating 2009/10 balances on an IFRS basis by the end of December 2010;
- completing skeleton accounts and accounting policies for member approval before the end of the financial year; and
- developing the reporting structure to extract relevant information to calculate the provision for annual leave.

15 I will continue to monitor progress at the Authority and undertake a review of the restated balances once complete. At the same time, it is important that the Authority continues to monitor progress over the next few months.

Recommendation

R1 Monitor implementation of the IFRS work plan to ensure that the IFRS transition is smooth and timely. Determine IFRS accounting policies and ensure that these are adopted ahead of the financial statements being prepared.

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 criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

2009/10 use of resources assessments

16 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 and the Commission would no longer issue scores for its use of resources assessments.

17 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.

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

VFM conclusion

19 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. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

20 This is a summary of my findings.

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
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural resources	Yes

21 I issued an unqualified conclusion stating that the Authority had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

22 I was able to identify the positive impact of the new financial planning arrangements introduced last year particularly around:

- the provision of information on the operational impact to Members to assist with decision making; and
- a stronger business case approval process with additional scrutiny.

23 I also identified that risk management has improved significantly in that the new strategy and training in March 2009 has raised the shared understanding of risks. Force and Authority risks are now assessed on the same scale although there is still scope to develop clearer links between the two. There is robust scrutiny and challenge by members of the risks.

24 This is the first year that I have formally reviewed the Authority's arrangements for managing its natural resources. I found that Authority is making effective use of natural resources. There are systems and processes in place to understand and quantify the use of natural resources. There is a strategy in place to reduce the environmental impact and manage environmental risks.

25 The Authority adopted an Energy Strategy in June 2007 and the action plan was updated in September 2008 which coincided with the development of a draft Environmental Strategy. The Environmental action plan detailed activities and targets in relation to resource management, procurement, waste management, vehicle pollution and sustainable development.

Approach to local value for money work from 2010/11

26 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.

27 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.

28 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 all 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

Financial position

29 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 by 2014/15. The government will cut almost two thirds of the reduction in funding by 2012/13.

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

31 While your forecasts take account of some aspects of the national picture, some uncertainties remain, in particular the national grant settlement for each police authority. The Authority has already seen in year reductions to its revenue budget of £900,000 and capital budget of £100,000 and you are now looking to revise plans for the next three years to address the impact of the spending review.

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

32 In the last six months, inspectorates have issued four national reports which look at the future of value for money and governance in policing (Appendix 2).

33 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.

34 The reports note the police service has reduced crime and increased public confidence during a time of expansion. In a new era of austerity with reduced funding, the reports challenge police authorities and constabularies to:

- show local strategic leadership of reform, taking decisive action to bridge funding gaps;
- redesign police services by using a longer-term transformational approach linking spending to its assessment of threat of serious criminality, the harm crime causes and the risks of day-to-day crime;
- challenge effectively all spending and efficiency targets, not just of support but operational functions, including the way constabularies use frontline officers;
- devise medium term plans geared to the cuts required, supported by deliverable plans;

- save up to £1 billion (12 per cent of government funding), by better workforce management, improved productivity, merging business support, better procurement and working with other constabularies and partners; and
- prioritise visible policing over all the police do to achieve savings of beyond 12 per cent of government funding.

35 You have recognised the need to change and are working with the Chief Constable to draw up plans to review service delivery under the new conditions. A report to the 28 September Finance and Performance Committee provided an update on the Force's progress in balancing the 2011/12 budget and planning for transformational change in future years.

36 This highlighted that the transformational change will focus on:

- increasing collaboration with other East Midlands Forces and Authorities to deliver specialist policing services that do not require local delivery;
- the delivery of back office functions; and
- the organisation and delivery of local policing.

37 Following on from this a joint Authority and Force planning and strategy day has been held to support development of both the budget and the policing plan. In addition, the Authority is holding regular strategic planning meetings, attended by the Deputy Chief Constable and Force Director of Finance. These meetings are being used by the Authority to support, monitor and challenge progress within the Force. They also provide a mechanism for the Authority to make clear what it needs in terms of assurance from the Force although this element may need further reinforcement.

38 The Authority's arrangements put it in a good position to influence the Force and it is critical that the Authority continues to play its role in shaping the delivery of policing for the future even if your own future is uncertain.

Police reform

39 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 is to have overview and scrutiny powers over the Commissioner.

40 The national reports on the inspections of police authorities (Appendix 2) 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.

41 Replacing police authorities with PCCs raises several risks relevant to these key themes of leadership and VFM for authorities. The Authority should review its:

- capacity to ensure its members and officers have the vision, drive and ability to deal with the risks, associated with the transition;
- 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.

42 PCCs will have a community safety role with potential to commission community safety work by partners in local areas. At the same time, the government is reviewing rules around community safety to free partnerships from central prescription.

43 The removal of prescription creates opportunities for police, councils and other partners to focus on and respond to local concerns.

44 Commissioners will need better information to make a positive contribution and impact in community safety. However, partnerships add complexity in providing transparent information to the public. The partnerships that will emerge will need to agree on:

- providing clear, credible and easy to understand information to the public;
- a better understanding of the different communities to adapt policing to their needs; and
- showing effective scrutiny, challenge and review in deciding actions for local communities.

Recommendation

R2 The Authority should continue to play its role in shaping the delivery of policing for the future, even if its own future is uncertain.

Closing remarks

45 I have discussed and agreed this letter with the Treasurer who has consulted with the Chief Executive. I will present this letter at the Authority meeting on 26 November 2010 and will provide copies to all members.

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

Report	Date issued
Audit Fee Letter	April 2009
Audit opinion plan	February 2010
Annual Governance Report	September 2010
Auditors report on the financial statements	September 2010
Value for money conclusion	September 2010

47 The Authority has 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 audit.

Sue Sunderland
District Auditor
November 2010

Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	47,321	47,321	0
Value for money	20,859	20,859	0
Total audit fees	68,180	68,180	0

Appendix 2 National reports

In the last six months, the Audit Commission, Her Majesty's Inspectors of Constabulary (HMIC) and the Wales Audit Office (WAO) have issued four national reports which look at the future of value for money and governance in policing.

Value for money

- 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);

Police Authority inspection

- 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)

Appendix 3 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 Council 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.

Appendix 4 Action plan

Recommendations

Recommendation 1

Monitor implementation of the IFRS work plan to ensure that the IFRS transition is smooth and timely. Determine IFRS accounting policies and ensure that these are adopted ahead of the financial statements being prepared.

Responsibility	Treasurer
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Priority	High
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Date	February 2011
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Comments	Agreed. The Authority's external advisors are now in place and will be reporting to the Audit Risk and Governance Committee and the Treasurer to provide assurance that our plans will deliver IFRS compliant financial statements for 2010/11. The Audit Risk and Governance Committee will monitor implementation of the plan closely and will consider IFRS accounting policies and restated 2009/10 balances before the end of the 2010/11 financial year.
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Recommendation 2

The Authority should continue to play its role in shaping the delivery of policing for the future, even if its own future is uncertain.

Responsibility	Authority
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Priority	High
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Date	March 2011
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Comments	Agreed. The Authority's Strategic Planning Committee is playing a lead role in the development of the Policing Plan for 2011-2014 and its Finance and Performance Committee will scrutinise the Force's budget proposals closely to ensure that they are aligned with the Policing Plan.
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