



INFRASTRUCTURE, GOVERNMENT AND
HEALTHCARE

Annual Audit Letter

2007/08

Derbyshire Police Authority
November 2008

AUDIT

Content

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Saverio Della Rocca, who is the engagement lead to the Authority, telephone 0121 335 2367 email saverio.dellarocca@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4063, email trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Team, Nicholson House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SU or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

1.1 Scope of this report

This letter reflects our responsibilities under the Code of Audit Practice and summarises our audit work for the 2007/08 year, including:

- audit of accounts (section 2); and
- work on the Authority's Use of Resources, including data quality (section 3).

This report also includes:

- a summary of recommendations and action plans for the current year (Appendix A);
- a follow up of recommendations from the previous year (Appendix B);
- a summary of the audit reports issued during the year (Appendix C); and
- our audit fee for the year (Appendix D).

1.2 Summary of findings

Audit of accounts

We issued an unqualified opinion and certificate on the Authority's 2007/08 financial statements on 26th September 2008.

Use of resources

We completed the work in support of our scored judgement on the Authority's Use of Resources and we reported our conclusions as part of our *Report to those charged with Governance* on 7th September 2008. We issued an unqualified conclusion on 26th September 2008. The assessment also evaluates the Authority against Key Lines of Enquiry (KLOEs) specified by the Audit Commission, against which the Authority is scored on a scale between 1 (below minimum requirements) and 4 (performing strongly). The scores were reviewed by both KPMG's local and national quality control processes and then by the Audit Commission to ensure consistency in scoring with other auditors and authorities.

Notable achievements emerging from this assessment included the achievement of a level 4 score for KLOE 1.1 (Production of statutory accounts) and the increased scores for both financial management and value for money to overall scores of 4. This has resulted in an overall Use of Resources score of 4 which highlights that the Authority is performing strongly. This reflects the strong financial management arrangements that the Authority has in place and the continued strong performance at low cost, relative to its most similar forces group.

Other work

If we are asked to do so, or if we identify a need for it, as auditors we are expected to perform other work as necessary to meet our responsibilities under the Audit Code of Practice. During 2007/08 we did not undertake any additional work.

1.3 Looking Forward

The Authority faces a number of challenges going forward. We have identified the following key issues:

- **Financial standing** - Financial management and standing continue to be a key issue as the Authority faces a number of challenges including the required investment in level 2 protective services. The Authority also needs to maintain a robust understanding of its costs linked to good activity and performance data to manage its resources effectively and to deliver efficiency improvements.
- **Demonstrating outcomes** - This will be the first year of a new use of resources assessment which will form one element of the Comprehensive Area Assessment (CAA) Framework. The overall judgement will be based upon the evidence produced by the Authority and will give particular emphasis to the value for money outcomes being achieved.

1.4 Acknowledgements

We would like to take this opportunity to thank all the Force and Authority's staff for their assistance during the completion of our audit work this year. We would also like to thank you for your assistance and support throughout our time as your auditors.

1.5 Availability of this Letter

This letter will be published on the Audit Commission's website at: www.audit-commission.gov.uk.

2.1 Scope of our work

Our *Report to Those Charged with Governance* (7th September 2008) gave our detailed findings and conclusions in relation to the Authority's accounts. In this annual audit letter, we summarise the outcome of the overall audit and provide an update on our *Report to Those Charged With Governance*, including the submission process for the Whole of Government Accounts (WGA).

2.2 Findings of the accounts audit

Opinion & Audit Certificate

We issued an unqualified opinion on the accounts on 26th September 2008.

Whole of Government Accounts (WGA)

Whole of Government Accounts (WGA) are "commercial-style" accounts that cover the whole of the public sector and include some 1,300 separate bodies. Each of these bodies is required to submit a consolidation pack. This is based on, but separate from, their statutory accounts.

We submitted the Authority's WGA pack to the Department for Communities and Local Government (DCLG) on 30 September 2008. This is the deadline for submission of the audited WGA pack to DCLG.

2.3 Financial Position

Revenue

In 2007/08, the Authority's original budget for net service expenditure was £151.6m, an increase of 4.3% over 2006/07. At the end of 2007/08, the underspend was £1.39m against budget.

As at 31 March 2008, the level of the general fund balance was £3.0m, representing around 2% of net revenue expenditure. This position is in line with the Authority's policy of maintaining a minimum level of between 2% of net revenue expenditure. Specific earmarked reserves total £26.4m and include an operational priorities reserve of £4.2m and a Centralised Contact Management Centre reserve of £3.8m.

As part of the budget monitoring framework, the Authority keeps its overall level of reserves under review to ensure it reflects the medium term view of the likely constraints on the Force's revenue and capital requirements. The Authority recognises that the use of reserves is a short term solution which may not resolve the longer term financial pressures. These pressures may affect service delivery and performance in some areas and will continue to present a challenge.

Capital

In 2007/08, the Authority's capital spend was £6.99m. Major items of capital expenditure during the year included the Vehicle replacement programme (£1.25m), ICT equipment (£1.18m) and Building works (£1.41m).

The capital programme was monitored continuously throughout the year with the Police Authority approving adjustments to project costs and timeframes within the programme on a regular basis.

Position reported as at 29th September 2008

The Authority reported that overall revenue spend would be within £0.31m of the approved budget by the end of the financial year. This represents an extremely tight financial position due to increasing police staff costs to address the Level 2 protective services requirements and demands on the Force's Crime Support Department.

The programme capital spend for 2007/08 totalled £14.896m, The actual spend to August 2008 was £5.49m with significant commitments on property refurbishment and IT replacement.

Audit of Accounts (continued)

2.4 Annual Governance Statement

We reviewed the information supporting the Authority's Annual Governance Statement for 2007/08 and concluded that it was consistent with our understanding of the Authority.

In forming this conclusion, we reviewed the work of internal audit and the arrangements the Authority had in respect of the prevention and detection of fraud and corruption. Our findings were reported in our *Report to those charges with Governance*.

2.5 Questions and objections from electors

Sections 15 and 16 of the Audit Commission Act 1998 provide local electors with an annual opportunity to inspect the accounts and subsequently, to put questions and/or objections relating to those accounts to the auditor. Any such objections must be resolved prior to the closure of the audit.

We did not receive any such questions/observations during 2007/08.

2.6 Legality of financial transactions

We are required to review the arrangements that the Authority has in place, to identify whether transactions undertaken that might have a significant financial consequence and contracts that are entered into are legally sound.

We have not identified any weaknesses in the framework established by the Authority for ensuring the legality of its significant financial transactions.

2.7 Looking forward

Over the next few years, police authorities will face a range of challenges to their accounts production processes. The 2008 Statement of Recommended Practice (SORP) introduces some amendments to local authority accounting for 2008/09 which will require thorough review.

International Financial Reporting Standards (IFRS) will also be relevant. All police authorities are required to produce IFRS-compliant accounts from 2010/11, so 1 April 2009 is the date of transition to IFRS in police authorities.

Based on our experience of assisting companies with their IFRS conversion, the Authority should aim, by the date of transition, to have:

- established a project team;
- reviewed which standards will have the biggest impact and which will be the most complex;
- completed the information-gathering stage - for example, gathering the information on all leased assets in order to review whether they are finance or operating leases under IFRS; and
- engaged their auditors with this process

Therefore, the Authority will need to give early consideration to the following issues:

- The new arrangements on accounting for leases: authorities will need to restate their accounts to include all leases under the new requirements. This has the potential to be time-consuming and may present challenges if original documentation for long-standing leases cannot be located.
- CIPFA has issued an Invitation To Comment on the 2009 SORP. Amongst the areas for consultation is the proposal to adopt the Treasury's interpretation of IFRS requirements for PFI schemes from 2009/10.

Given the breadth of the changes which transition to IFRS will bring, the Authority should engage early with these changes and ensure it has plans in place to address each area. Whilst IFRS is being introduced to police authorities later than in other areas of the public sector, the intervening period must be used wisely if some of the problems experienced by companies in moving to IFRS are to be avoided. The Authority will need to work closely with its new auditors, the Audit Commission, to meet the challenge of IFRS conversion.

3.1 Scope of our work

We reported our interim findings in support of our Use of Resources conclusion in our *Report to those charged with Governance*. We have now completed the work to support the Audit Commission’s overall evaluation of the Authority’s use of resources (see below).

We have also set out below the summary of our other work completed as part of our responsibilities under the Code of Audit Practice in relation to the Authority’s use of resources.

3.2 Police Use of Resources Evaluation (PURE)

The Use of Resources assessment is based around five Key Lines of Enquiry (KLOEs): Financial Reporting; Financial Management; Financial Standing; Internal Control and Value for Money.

The Authority prepared a self assessment against these KLOEs to help inform our review. We formulated our judgement by considering the evidence in the self assessment, holding interviews with the Authority’s officers and through consideration of evidence from our other audit work. Following internal quality control processes by KPMG at both a local and national level, the draft scores were submitted to the Audit Commission for its national review, and have now been approved. The 2008 scores for the five individual KLOEs for Derbyshire Police Authority are shown below and the Authority has been assessed as 4 ‘performing strongly’:

KLOE	Score 2007	Score 2008	Direction of travel*
Financial Reporting	4	4	↕
Financial Management	3	4	↑
Financial Standing	3	3	↔
Internal Control	3	3	↔
Value for Money	3	4	↑
Overall score	3	4	↑

* The ‘direction of travel’ assessment represents movements between scores but also movements in the number of sub criteria met by the Force and Authority.

The Authority has implemented an integrated budget setting process which involves Police Authority members and senior managers. Business plans and the overall vision have been aligned to a comprehensive overview of operational risks facing the force. The Force is also delivering good outcomes with low levels of spending and funding. Published statistics highlight the efficiencies being delivered by the Force and financial reporting arrangements continue to be maintained at level 4.

In addition to the scored judgement, we are required to give an annual conclusion on the Authority’s use of resources. This is based on whether the Authority meets 12 criteria specified by the Audit Commission, and is unqualified where these are all met and qualified if there are areas where the minimum standards are not fully achieved. Our conclusion draws on our scored judgement and our audit of data quality.

We reported our conclusion on the Authority’s use of resources as part of our audit report on the Authority’s accounts. We issued an unqualified audit opinion on 26 September 2008.

Good practice and improvement opportunities

Further good practice points identified at the Authority and improvement opportunities within each KLOE assessment area are detailed in the following sections.

Section three

Use of Resources

KLOE 1: Financial Reporting

KLOE	Score 2007	Score 2008	Direction of Travel
1.1: Production of statutory annual accounts	4	4	↔
1.2: Promoting external accountability	4	3	↓
Overall score for KLOE 1	4	4	↓

This KLOE assesses how effective the Authority's arrangements are for producing and publicising its annual accounts in accordance with relevant standards and timetables.

The Authority has achieved a score of 4 on KLOE 1.1, in line with the previous year.

The Authority achieved a score of 3 on KLOE 1.2, which represents a fall in the score from 2006/07. The Authority publishes its accounts and annual audit letter in accordance with the Accounts & Audit Regulations 2003. In addition, the Authority produces summary accounts. However, the annual report does not include an analysis of the Authority's environmental footprint which is required under the new criteria to obtain a Level 4.

Recommendation 1: Environmental footprint

The Authority should develop its arrangements for formally determining and reporting its environmental footprint.

KLOE 2: Financial Management

KLOE	Score 2007	Score 2008	Direction of Travel
2.1: Financial planning and budget setting	3	4	↑
2.2: Managing performance against budgets	3	4	↑
2.3: Asset management	3	3	↔
Overall score for KLOE 2	3	4	↑

This KLOE assesses how well the Authority and Force plan their finances and deliver on these plans.

The Authority has increased its score to level 4 in this area. The Force has an integrated business planning and budget setting process involving Police Authority members and senior managers. The precept report shows the LAA targets that have been agreed at both a county and city level and these were also part of the risk assessment process. The precept report also clearly shows how the Authority has assessed risk and levels of reserves.

The Authority transformed its budget process to make sure that the allocation of resources was soundly based on the key organisational and operational risks facing the Force. This created a direct link between the National Intelligence Model (NIM) that drives strategic policing deployment and the budget process.

There is a clear process of managing financial performance through effective budgetary control. There is a budgetary control system in place and guidance and training is given to budget-holders. There is clear evidence of regular monitoring and reporting of variances to Members. Budget setting and financial control training is provided to Members as part of their induction to enable them to appropriately challenge the Authority and Force arrangements. This has been recorded as notable practice by the Audit Commission.

Devolved budget arrangements

As part of our review of financial management, we reviewed the operation of the devolved budget arrangements. Our review covered:

- the framework for devolved budgets – are arrangements clearly articulated and understood ?;
- behaviour and compliance – do the arrangements inform decision making ?; and
- reporting – are reports user friendly and timely ?

In reviewing these areas, we looked at whether arrangements could be streamlined further and specifically, whether the information from the financial system was helpful to users.

Section three

Use of Resources

We found the arrangements were working well. Whilst the framework and guidance notes to support the arrangements are still being developed, the BCU Managers meet on a monthly basis to develop their understanding of the process. This has led to improvements in the quality of reporting on overtime trends and year end forecasting. It is important that the BCU Managers feed into the development of the guidance notes for devolved budgets and we have shared some best practice examples with Finance.

Monthly budget monitoring reports have been tailored to reflect BCU Commander requirements, including the level of overtime information. Sickness and other HR measures are being developed and considered as part of the financial monitoring framework. To ensure arrangements comply with best practice, the Authority and Force should consider benchmarking some of the finance functions operations. We have shared some good practice examples with Finance.

Pro forma excel reports have allowed for easy extraction into summarised information. Agresso system reports are now being downloaded into access databases in one BCU to improve the timeliness and flexibility of reporting. Training is provided and support is available from the finance and systems teams at headquarters. The impact of this pilot should be assessed by the BCU Manager group.

KLOE 3: Financial Standing

KLOE	Score 2007	Score 2008	Direction of Travel
3.1: Managing spending within available resources	3	3	↔

The overall aim of the financial standing assessment is to evaluate the Authority's arrangements for managing its spending within its available resources, including how the Authority ensures that its finances are sustainable.

The Authority has maintained a score of 3 against this KLOE. The Authority approves its reserves policy annually and this is factored into the MTFS. It has set a policy of maintaining a minimum level of general fund and reserves and the Authority's MTFS sets out its planned use and contributions of these reserves over the next few years. The Authority has recently developed some financial health indicators to supplement its financial monitoring arrangements, a requirement to achieve level 4.

KLOE 4: Internal Control

KLOE	Score 2007	Score 2008	Direction of Travel
4.1: Risk management	3	3	↔
4.2: Internal control	3	3	↔
4.3: Ethics and conduct	3	3	↔
Overall score for KLOE 4	3	3	↔

The overall aim of the internal control KLOE is to assess the Authority's control arrangements, encompassing risk management arrangements and assess how the Authority ensures a high standard of conduct by Members and officers.

The Authority has maintained a score of 3 for KLOE 4.1 as its risk management systems are working well at Member and strategic levels. However, there is still further work to do in embedding arrangements in respect of performance management within BCU operations.

The Authority has maintained a score of 3 for KLOE 4.2. The Authority has a constitution that sets out its standing orders and financial instructions and the Authority is developing its Assurance Framework to ensure it is fully embedded across the organisation.

The Authority's score for its arrangements over ethics and conduct has again been assessed as a level 3. There are strong arrangements in place to promote and ensure probity and propriety in the conduct of the Authority's business, with further improvements and updates to policies and procedures for the Authority. To achieve a level 4 score, the Authority and Force need to be more proactive in communicating risk information and good practice in effective governance at all levels of the organisation, including the development of its Member scrutiny programme.

Recommendation 2: ‘Bottom up’ risk management

The Authority and Force need to ensure that risks get considered regularly by BCU’s and functions to ensure risk registers give a comprehensive picture of the risks facing the organisation.

The Authority and Force should review its position against the requirements of this KLOE and produce an action plan where it wishes to improve its procedures in this area. This should take into account the likely costs and benefits of the required improvements to ensure that they represent value for money and help the Authority and Force to meet its objectives.

KLOE 5: Value for Money

KLOE	Score 2007	Score 2008	Direction of Travel
5.1: Achievement of value for money	3	4	↑
5.2: Processes to improve value for money	3	3	↔
Overall score for KLOE 5	3	4	↑

The overall aim of the Value for Money assessment is to determine whether the Authority’s services currently provide good Value for Money (VFM), and whether it manages and improves value for money.

The Authority improved its Value for Money score to 4 for 5.1 and maintained its score of 3 for 5.2 from 2007/08.

The Authority and Force deliver value for money through clear ambitions, strong strategic management processes, supported by a robust performance management framework. There have been significant reductions in reported crime over the previous 5 years and the Authority is in the top quartile for reductions in reported crime.

There is stability within the Authority and Force with strong and effective leadership, robust financial management arrangements and a culture of clear accountability and discipline. There is a positive relationship between the Authority and the Force. The Authority has consulted extensively with the public with regard to policing priorities, invested in strengthening the service and maintained stringent monitoring processes over performance and cost.

There are a range of mechanisms to drive improvements in value for money, including integrated business and financial planning, business cases to support growth and investment decisions, delivery of efficiency savings to fund continuing developments and modernisation, development of joint collaboration, procurement arrangements and specific projects to bring about improvements.

The Authority has produced evidence that it manages and improves value for money. However, it needs to further develop its routine reporting arrangements to focus on outcomes. This will be particularly important with the advent of CAA, the new Home Office performance assessment framework, APACS and in demonstrating to stakeholders wider performance improvements which may not necessarily be captured by the current performance measures.

Recommendation 3: Reporting on outcomes

The Authority needs to further develop its routine reporting arrangements to focus on outcomes and when making significant investments, for example in IT, it needs to focus on the difference this makes to performance and stakeholder satisfaction.

3.3 Other Work

Police Data Quality Review

We were not mandated to undertake any specific data quality review during the year. However, we did review the Authority and Force's data quality processes to ensure that arrangements are in place to produce reliable data. This work followed up our findings from last years data quality review where the Authority and Force were graded as 'good' overall. This was reviewed as part of our PURE work on Value for Money. The Force and Authority continue to report regularly on the results of crime audits and the action taken in response to any weaknesses. In the absence of any external scrutiny of data quality, it is important that the Authority and Force continues to monitor the level of assurance it gets from the current arrangements.

3.4 Looking forward

The 2009 Use of Resources assessment will be the first to be performed under the Audit Commission's new methodology. This approach contributes to the Comprehensive Area Assessment (CAA) regime which replaces the current framework of Comprehensive Performance Assessment (CPA).

Under the CAA UOR approach, the five criteria are replaced by three:

- Managing Money;
- Managing the Business; and
- Managing Other Resources.

These are then drawn together to form an overall judgement which is unscored.

The new assessment will present a significant challenge in that the assessment is based on "best fit" against descriptors, rather than simply ticking off arrangements in a set list. This means that demonstrating innovation, as well as accepted best practice, will be increasingly important when seeking the higher scores.

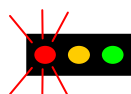
Moreover, level 4 is made more open to judgement – the Audit Commission has not defined criteria at level 4. This again increases the importance of authorities demonstrating that they follow and actively contribute to leading practice.

Appendix A: Summary of recommendations and action plan

This appendix summarises the recommendations that we have identified while preparing this report. We have given our observations a risk rating (as explained below) and agreed with management what action you will need to take.

Priority rating for recommendations raised

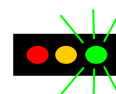
Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.



Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.



Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.



Number	Risk	Issue	Management response	Officer and due date
1.	● (three)	<p>Recommendation 1: Environmental footprint</p> <p>The Authority should develop its arrangements for formally determining and reporting its environmental footprint</p>	<p>Agreed</p> <p>The Force has already held an environmental seminar attended by a number of Forces. Sustainable development plans have been updated and a benchmark will be set for the current environmental footprint.</p>	<p>Helen Boffy, Treasurer Terry Neaves, Director of Finance and Administration 2009/10</p>
2.	● (three)	<p>Recommendation 2: 'Bottom up' risk management</p> <p>The Authority and Force need to ensure that risks get considered regularly by BCU's and functions to ensure risk registers give a comprehensive picture of the risks facing the organisation.</p>	<p>Agreed</p> <p>Risk management is considered at a Force and Authority level but we will look at ways to enable BCU's to feed into this process. BCU commanders and function heads will have an opportunity to contribute to the overall risk register, possibly through the Strategic Risk Group.</p>	<p>Helen Boffy, Treasurer Terry Neaves, Director of Finance and Administration 2009/10</p>
3.	● (two)	<p>Recommendation 3: Reporting on outcomes</p> <p>The Authority needs to further develop its routine reporting arrangements to focus on outcomes and when making significant investments, for example in IT, it needs to focus on the difference this makes to performance and stakeholder satisfaction.</p>	<p>Agreed</p> <p>We are working with forces across the East Midlands Region to look at how we identify and realise benefits from major investment projects. At a force level, this is currently being considered by the Business Change Project. We will aim to introduce new arrangements for benefits realisation during 2009/10.</p>	<p>Helen Boffy, Treasurer Terry Neaves, Director of Finance and Administration 2009/10</p>

Appendix B: Follow-up of recommendations from the previous year

We have followed up the recommendations we made in 2006/07. We noted a total of 1 recommendation. The table below provides an overall summary of progress. Previous recommendations in respect of our use of resources report are considered as part of section three of the report

Number	Risk	Issue	Original Management response	Current position
Financial Reporting				
1	● (three)	The Authority should ensure that the most recent set of Summary Accounts are available on it's website.	Agreed	Implemented. The 2006/07 summary accounts are available on the Authority's website.

Appendix C: Audit reports issued

Report Title	Date Issued
Audit Plan 2007/08	May 2007
Report to those charged with governance (ISA260)	September 2008
Opinion on Financial Statements	September 2008
Whole of Government Accounts - Opinion	September 2008
Annual Audit Letter	November 2008

Appendix D: Fee summary

The table below summarises our fees for completing the 2007/08 audit.

Area of audit work	Planned fee /£	Actual fee /£
Audit of accounts and Use of resources	37,680	37,680
Use of Resources	38,000	38,000
Grant claim certification	0	0
Total	75,680	75,680