

# Annual Audit Letter

Greater Manchester Police Authority

Audit 2010/11



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# Key messages

This report summarises the findings from my 2010/11 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.

Key audit risk	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

## Traffic light key

Red ■ Amber ◆ Green ●

## Audit opinion and financial statements

I gave an unqualified opinion on the Authority's financial statements on 30 September 2011.

The transition to the International Financial Reporting Standards based Code of Accounting Practice was a significant change to the accounting framework for police authorities. It involved some major changes in the financial statements, with some new accounts and a big increase in the disclosure requirements.

I identified a number of misstatements in the draft financial statements, particularly in relation to accounting for pension benefits. The Authority made the appropriate changes, and none of the adjustments affected the amount of the Authority's usable reserves. The Authority's accounts comply fully with the new IFRS requirements.

I comment further on the audit of the Authority's financial statements on page 6 of this report.

## Value for money

I gave an unqualified conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources on 30 September 2011.

My conclusion was based on my assessment of the following two areas specified by the Audit Commission:

- Financial resilience; and
- Securing economy, efficiency and effectiveness

I have set out a summary of my assessments in these two areas on pages 8 and 9 of this report.

# Current and future challenges

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## Abolition of the Authority

The Police Reform and Social Responsibility Act 2011 provides for the restructuring of local police services. The Act contains provisions to abolish the Police Authority and establish an elected Police and Crime Commissioner (PCC) for the Greater Manchester area. The first elections will be held on 15 November 2012. The Authority will be abolished at the same time. The PCC's responsibilities will include holding the Chief Constable to account, setting the Force budget including the local council tax precept and publishing a police and crime plan. These are roles that are currently performed by the Authority.

A Police and Crime Panel will provide independent scrutiny of the PCC. This Panel will be independent of the Greater Manchester local authorities, but will comprise members from each of them.

To help prepare for the changes, the Authority has formed a Transition Committee and is currently preparing a detailed Transition Plan. The aim is to identify and manage the risks associated with the abolition of the Authority and the transition to the new arrangements.

The next twelve months will be a challenging time for the Authority. It will prepare for its abolition, implement its Transition Plan and seek to maintain effective performance management and governance arrangements.

## Financial resilience

The economic downturn has increased the financial pressures facing public sector bodies. The Government published its Spending Review in November 2010 and this included plans to reduce central government revenue funding to police authorities by 20 per cent over the period 2011/12 to 2014/15. The freeze on council tax also applies to the Authority, further limiting the Authority's income. These financial pressures pose a significant challenge to the Authority as it seeks to preserve or improve service performance with fewer resources.

I comment later in this report on the initiatives taken by the Authority and Force to maintain financial resilience. In particular, a rigorous priority-based approach to budget setting has been taken, the Authority has increased its engagement with local residents using a budget simulator and collaboration with other forces is increasing.

The Authority and Force successfully reduced expenditure, whilst reducing crime levels and improving detection rates, during 2010/11. They recognise the considerable financial and service challenges ahead and are preparing well to respond to these challenges.

## Financial reporting

The abolition of the Authority in November 2012 will mean that there will need to be part-year financial statements covering the period from April to November 2012. Whilst these financial statements will relate to the Authority, they will be finalised after the Authority's abolition. The challenges presented by the requirement to prepare and audit these part-year financial statements will need addressing in the Authority's Transition Plan. I will liaise with the Authority's finance officers as plans for the preparation of the Authority's final financial statements develop.

# Financial statements and annual governance statement

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**The Authority's financial statements and annual governance statement are an important means by which it accounts for its stewardship of public funds.**

## **Overall conclusion from the audit**

I gave an unqualified opinion on the Authority's 2010/11 financial statements on 30 September 2011.

The first time introduction of international financial reporting standards (IFRS) involved some key changes in accounting practice. There were some new accounts and a big increase in the amount of information disclosed in the financial statements. This greatly increased the size of the published statements in terms of numbers of pages compared with previous years. It also required a lot more input from officers of the Force and the Authority.

The Authority experienced significant slippage against its timetable for the transition to IFRS based Code of Practice on Local Authority Accounting ('the Code'). This slippage resulted in delays to the preparation of the draft 2010/11 financial statements. And it reduced the time available for review by senior management prior to submission of the statements for audit. I identified a number of misstatements in the draft financial statements and reported these to the Authority's finance officers. The adjustments required did not change the Authority's usable reserves, but significant changes were needed to entries in the financial statements in order to comply fully with the Code.

## **Significant weaknesses in internal control**

The Code introduced significant changes to the required accounting treatment for grant funding. Neither the Authority nor Force maintains a comprehensive register of all grant allocations received. The introduction of such a register would strengthen controls to ensure that grant funding is appropriately accounted for.

## Recommendations

### Recommendations

**R1** Ensure sufficient time is available for management to review the draft financial statements prior to their presentation for audit.

**R2** The Authority should introduce arrangements to maintain a register of all grant allocations received.

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# Value for money

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**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.**

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Authority has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

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## Value for money criteria and key messages

Criterion	Key messages
<p><b>1. Financial resilience</b></p> <p><b>The organisation has proper arrangements in place to secure financial resilience.</b></p> <p><i>Focus for 2010/11:</i></p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The Authority and Force initiated programmes to improve performance and value for money before the Comprehensive Spending Review of November 2010.</p> <p>The leadership teams of both the Force and Authority clearly understand the significant and rapidly changing financial management challenges and risks they face. They also fully appreciate the importance of securing a stable financial position into the medium term.</p> <p>The Authority and Force produced a strong Medium Term Financial Plan. This helped them, to develop robust and measured plans in response to the funding reductions that will occur over the 2011/12 to 2014/15 period.</p>

## Criterion

## Key messages

One of their key responses to the challenging financial landscape was the use of a priority-based approach to budgeting. The back-office and middle-office functions of the Force have been subjected to detailed budget scrutiny. This was designed to achieve significant savings, focus resources on priority areas and maximise available resources for front-line service delivery. Members of the Authority and its Value For Money Committee exercised oversight of the process of priority-based budgeting, and took account the risks associated with operating at different levels of service.

The Authority and Force have a good track record of performing within budget. The Authority was able to increase its General Fund reserves during the 2010/11 financial year by £19.9 million to £32.6 million. This is in line with the Authority's risk based reserves strategy.

The Authority has considerable financial challenges ahead. The structured planning already completed, the efficiency savings made to date, and the risk based approach to reserves all place the Authority in a good position to meet these challenges successfully.

### **2. Securing economy efficiency and effectiveness**

#### **The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.**

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The Authority strengthened its governance structure during 2010/11. A key part of this was the creation of the Value for Money (VfM) Committee which first met in October 2010. This Committee provides integrated monitoring and challenge of financial and operational performance.

As part of the development of the VfM Committee, a joint Authority and Force VfM Strategy and action plans have been produced.

The Authority and Force increased the use of benchmarking information to support their analyses. This included reviewing HMIC's Value for Money profiles to identify the potential for efficiency savings.

As noted above, the Authority and Force have introduced a priority-based budgeting approach specifically designed to prioritise resources and achieve cost reductions whilst maintaining or improving operational performance.

The Authority consulted with local residents to inform its spending priorities. It developed a web-based budget simulator and received nearly 1,000 responses which it took into account in setting the 2011/12 budget.

The Authority and Force have a proactive approach to procurement and collaboration. Collaboration between forces is developing, with progress being made in relation to cross-border crime, motorway policing and counter-terrorism. There have been discussions with the Association of Greater Manchester Authorities' Efficiency Commission to explore opportunities in relation to the procurement of energy and vehicles.

**Criterion****Key messages**

The Force's operational performance continued to improve during the year with crime levels falling and detection rates improving. The Force performed particularly well in relation to volume crime reduction during 2010/11, with domestic burglary falling by 9 per cent, vehicle crime by 24 per cent and incidents of anti-social behaviour by 25 per cent.

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# Closing remarks

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I have discussed and agreed this letter with the Executive Director and the Treasurer. I will present this letter at the Audit and Risk Committee on 2 December 2011 and will provide copies to all Authority members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Authority during the year.

Report	Date issued
Initial audit plan and fee letter	16 April 2010
Audit Opinion Plan	24 January 2011
Annual Governance Report	21 September 2011

The Authority has taken a positive and constructive approach to our audit. I wish to thank the Authority staff for their support and co-operation during the audit.

Mick Waite  
District Auditor

November 2011

# Appendix 1 - Fees

	Actual (£)	Proposed (£)	Variance (£)
Scale fee**	125,200	122,700	2,500
Audit Commission rebates*			
■ IFRS implementation	(7,607)	(7,607)	0
■ Change in VfM approach	(1,871)	(1,871)	0
Non-audit work	0	0	0
<b>Net audit fee payable</b>	<b>115,722</b>	<b>113,222</b>	<b>2,500</b>

\* The Audit Commission provided a rebate of £7,607 to Greater Manchester Police Authority to subsidise the one-off element of the cost of transition to International Financial Reporting Standards in 2010/11. The Audit Commission also provided a rebate of £1,871 relating to the change in approach to VfM audit from 2010/11.

\*\* The increase in fee over that originally proposed relates to additional work on the Authority's opinion audit.

# Appendix 2 - Glossary

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## **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 financial statements, I must give my 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; and
- whether they have been prepared properly, following the relevant accounting rules.

## **Opinion**

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

## **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 resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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