

# Annual Audit Letter

**Greater Manchester Police Authority**

**Audit 2009/10**

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

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

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

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# Key messages

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

- **the audit of your financial statements (page 3); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 4 to 7).**

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

## **Audit opinion and financial statements**

**1** I issued an unqualified opinion on the Authority's financial statements on 29 September 2010. The Authority's draft financial statements were prepared on time and were supported by adequate working papers.

## **Value for money**

**2** I issued an unqualified conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources on 29 September 2010.

## **Audit fees**

**3** I have kept my audit fee to the total of £115,274 agreed with the Authority in April 2009. Appendix 1 contains information on audit fees.

## **Current and future challenges**

**4** The key challenges facing the Authority, from my perspective as the Authority's external auditor are as follows:

- securing financial resilience;
- successfully managing the transition to International Financial Reporting Standards; and
- managing the transition to an elected Police and Crime Commissioner and I comment on these challenges on page 8.

# Financial statements and annual governance statement

**The financial statements and annual governance statement are an important means by which the Authority accounts for its stewardship of public funds. I gave an unqualified opinion on the Authority's 2009/10 financial statements on 29 September 2010, within the statutory target date.**

## Overall conclusion from the audit

**5** I issued an unqualified opinion on the Authority's financial statements on 29 September 2010. The Authority's officers prepared draft financial statements on time and produced adequate working papers to support them.

**6** Officers made some changes to the draft financial statement based on the results of my work. None of the adjustments made affected the movement on the General Fund for the year or the net worth of the Authority as reported in the draft accounts.

**7** The Authority met a new accounting requirement for local government bodies in 2009/10, known as IFRIC 12. This required the Authority to include within its balance sheet police properties acquired through a Private Finance Initiative (PFI) scheme and valued at £74 million.

## Significant weaknesses in internal control

**8** I did not identify any significant weaknesses in your internal control arrangements that might have resulted in a material error in your financial statements.

**9** However, my work on PFI found weaknesses in arrangements to register contracts. The Authority has agreed to review its arrangements and ensure all significant contracts entered into by the Authority and Force are properly recorded in a central register along with details of the location of original contract documentation.

# 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

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

**11** However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I was able to use the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

## VFM conclusion

**12** 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. 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.

**13** I issued an unqualified conclusion on 29 September 2010 stating that the Authority had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources. I have set out below my summary findings in three main areas.

### Managing finances

**14** The Authority and Force plan finances effectively to deliver strategic priorities and secure sound financial health. They allocate resources to main priorities, following engagement with key stakeholders and service users, including the Association Greater Manchester Authorities (AGMA).

**15** Treasury management arrangements at the Authority are up-to-date and reflect CIPFA guidance.

**16** The Force is reviewing a wide range of areas with the aim of reducing costs, and expects to make large savings from 2010/11. But, overall, service costs remain higher than average for comparable forces and performance is lower. Activity analysis shows significant potential to reduce costs, particularly of corporate overheads and middle office functions. There is scope for the Authority and Force to learn from good practice in other areas.

**17** The Audit Commission and Her Majesty's Inspectorate of Constabulary have identified groupings of similar police forces ('most similar forces') to enable meaningful comparisons of performance to be made. The forces within Greater Manchester's most similar grouping are Merseyside, South Yorkshire, West Yorkshire, West Midlands and Northumbria.

**18** During 2009/10, overall recorded crime in Greater Manchester has fallen by 13 per cent and in particular:

- the number of serious violent crimes in Greater Manchester has fallen;
- serious acquisitive crime has reduced;
- the number of robberies has reduced; and
- the number of vehicle crimes has reduced.

**19** However, performance relative to similar forces remains weak in a number of areas:

- Greater Manchester still has the highest overall number of recorded crimes per head of population;
- crime detection rates in Greater Manchester improved slightly, although they are still significantly below the average achieved by the most similar forces; and
- user satisfaction and confidence in the police service in Greater Manchester were the lowest amongst most similar forces.

**20** The performance of the Force has improved in a number of areas during the first half of 2010/11. In particular, detections have increased across a broad range of serious crimes. Overall crime levels have continued to fall during the first half of 2010/11, particularly in relation to vehicle crime, robberies and serious acquisitive crime. Confidence in and satisfaction with the Force has also improved. However, there is still scope for significant improvements in performance relative to the most similar forces.

**21** There were significant improvements in the timely provision of financial information to the Force Chief Officer Group during 2009/10. The annual financial statements also now provide a much more informative analysis of financial and operational performance. The value of police buildings

procured under the Private Finance Initiative (PFI) has now been brought on balance sheet in accordance with recommended practice under IFRIC12.

**22** For 2010/11 local authorities need to implement fully International Financial Reporting Standards (IFRS). The Authority made progress during 2009/10 to prepare for this, but still has a lot to do.

### **Governing the business**

**23** The Authority and Force display good governance. There is a sound system of internal control, and members and senior officers are clear about their respective roles. The Force worked with the Government Office North-West (GONW) to produce the first Greater Manchester Strategic Partnership Risk Register.

**24** The Authority recognised the need to align its own risk processes with the those of the Force and is making progress in developing coordinated governance arrangements.

**25** The Force is developing a common approach to procurement with partners across the North-West to make it more cost effective and reduce paperwork. Arrangements are in place to monitor and report spending outside of arranged contracts, with a target to have 90 per cent of spend under contract or with agreed exemption.

**26** The Authority and Force commission supplies and services to suit local needs. They are building a better understanding of community needs to help deliver more citizen focused policing. Actions taken to help with this included holding widespread neighbourhood meetings and surveys, citizens surveys and working closely with the victims of crime to better understand their experiences of police services and how they could be improved.

**27** The Authority and Force produce relevant and reliable data and information to support decision-making. However, data from the current Human Resources system needs a lot of manual analysis and a project is in place to procure a new IT solution to address this.

### **Managing resources**

**28** The Authority and Force are using IT well to improve customer experience and improve value for money. New technology within the Contact Centre helps match demand and resources better. This has reduced overtime by over one-quarter, achieved savings of over £550,000 and also reduced response times to non-emergency calls. The Force is using Automatic Resource Location technology to make efficiency savings by matching staff to workload better and reducing overtime payments.

**29** The Authority and Force are making effective use of natural resources.. The Force has installed devices to reduce mains voltage within its buildings which it forecasts will save 1,400 tonnes of carbon and £270,000 each year. A new general waste disposal contract has also resulted in the recycling of 190 tonnes of waste in 2009/10.

**30** In its new major construction schemes, a lot of attention is given to meeting energy efficiency priorities. As part of its planning process for new developments the Force has regard to 'BREEAM', a widely used environmental assessment method for buildings. The Force expects to achieve BREEAM 'excellent' building standards for its new headquarters in 2010/11.

**31** The table below summarises my assessment of the Authority's arrangements in key areas specified by the Audit Commission.

Criteria	Adequate arrangements?
<b>Managing finances</b>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
<b>Governing the business</b>	
Commissioning and procurement	Yes
Use of information	Yes
Principles and values of good governance	Yes
Risk management and internal control	Yes
<b>Managing resources</b>	
Natural Resources	Yes

## Approach to local value for money work from 2010/11

**32** 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.

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

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

**34** 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 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 balance

**35** Along with other public sector bodies the Authority is facing increasing financial pressures following the economic downturn. The recent Comprehensive Spending Review provided headline spending totals for the police service over the next four years. During this period the central government contribution to policing will reduce in real terms by 20 per cent.

**36** Definitive funding figures for policing in Greater Manchester will not be confirmed until later in 2010, although it is clear that improvements in service will need to be achieved in the context of significantly reduced financial resources.

**37** Work is in progress across the Authority and Force to allocate resources to priority areas and maintain financial balance. The Force's 'Putting People First' change programme reviews the policing levels required to meet demand for services most efficiently and effectively. The 'Optimus' programme, established in August 2009, is concerned with redirecting effort and funding from back office functions to front line service delivery.

**38** For 2011/12 a participative priority-based budgeting process is being used to assign resources and finances. This involves managers and directors from across the Force who are responsible for delivering services. The public are able to feedback on how they would spend the police budget using a budget simulator tool available through the Authority's website.

**39** As set out above, there are some good initiatives in place. The Authority and Force will need to continue to work together closely to deliver value for money, direct resources to priority areas and secure financial balance and longer term financial resilience.

## Transition to International Financial Reporting Standards (IFRS)

**40** Local government bodies, including the Authority, will prepare their financial statements to comply with the Chartered Institute of Public Finance and Accountancy's Statement of Recommended Practice (SoRP). Financial statements prepared by local government bodies for 2010/11 will follow and IFRS-based SoRP for the first time.

**41** National Health Service bodies adopted IFRS-based financial reporting for 2008/09. The experience from the NHS sector is that significant planning and project management involving finance and non-finance officers, well in

advance of the deadline for preparation of IFRS-based statements, is required to achieve a smooth transition to the new reporting requirements.

**42** As part of the transition to IFRS, the Authority adopted IFRIC12 requirements in preparing its 2009/10 financial statements. This resulted in the inclusion of police facilities, provided under a Private Finance Initiative arrangement, being recognised on the Authority's balance sheet.

**43** However, there is still much work to be done on the transition to IFRS. The Authority plans to restate its 2009/10 financial statements on an IFRS basis and to draft a template set of IFRS compliant financial statements by the end of December 2010. I will continue to work closely with the Authority as it proceeds with the transition to IFRS.

## **Future developments**

### **Police Reform and Social Responsibility Bill**

**44** The Home Secretary launched a consultation document 'Policing in the 21st Century: Reconnecting police and the people' in July 2010. This document set out the government's plans for police reform including elements that will be part of the Police Reform and Social Responsibility Bill to be introduced in autumn 2010.

**45** The government's plans include the introduction of directly elected 'Police and Crime Commissioners' from May 2012, and the abolition of police authorities. A single Commissioner is proposed for the Greater Manchester area. Their responsibilities would include holding the Chief Constable to account and setting the Force budget including the local council tax precept, roles that are currently performed by the Authority.

**46** In the lead up to May 2012 the Authority will need to prepare for the transition to the elected Commissioner arrangements. It will need to put plans in place to manage the transition and ensure there is continuity in the key functions of representing communities and scrutinising the performance and value for money of the Force.

### **The abolition of the Audit Commission**

**47** On 13 August, the Secretary of State for Communities and Local Government announced the proposed abolition of the Audit Commission by the end of 2012. The government announced its plan to seek legislation in this session of Parliament to this effect.

**48** The Audit Commission will remain in place for the coming 2010/11 and 2011/12 audits. The Commission has written to the Authority's Chief Executive to confirm there is no immediate change to the audit appointment for the Authority.

**49** The Commission is in discussion with the Department of Communities and Local Government about the proposed legislation and the details that will need to be worked through. I will keep the Authority informed about the future audit programme and any changes that affect you.

## Closing remarks

**50** I have discussed and agreed this letter with the Treasurer. I will present this letter at the Audit and Inspection Committee on 3 December 2010 and will provide copies to all Authority members.

**51** 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
Initial audit plan and fee letter	28 April 2009
Audit Opinion Plan	12 March 2010
Annual Governance Report	17 September 2010

**52** The Authority has taken a positive and helpful approach to our audit. I wish to thank the Authority's staff for their support and cooperation during the audit.

Mick Waite  
District Auditor  
November 2010

## Appendix 1 – Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	79,308	79,308	0
Value for money	34,104	34,104	0
Whole of government accounts	1,862	1,862	0
Total audit fees	115,274	115,274	0
Non-audit work*	18,415	18,415	0
Total	133,689	133,689	0

\* - This relates to two pieces of Advice and Assistance work completed during the year. This work is separate to the statutory audit and has been reported and billed separately.

## Appendix 2 – Glossary

### Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the 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.