

Annual Governance Report

Suffolk Police Authority

Audit 2007/08

September 2008



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Summary

Purpose

- 1 This report summarises the findings from the 2007/08 audit, which is substantially complete. It identifies the key issues that you should consider before I issue my opinion, conclusion on the use of resources and certificate.
- 2 This report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

Financial statements

- 3 My work on the financial statements is substantially complete, pending closing procedures associated with the final review of the revised financial statements and the completion of the audit the Whole of Government Accounts (WGA) consolidation package.
- 4 Should any further matters arise in concluding the outstanding work that need to be reported, I will raise them at the meeting of the Monitoring and Audit Committee on 26 September 2008.
- 5 I propose issuing an unqualified audit opinion by 30 September 2008 (a draft auditor's report is attached at Appendix 1). The Annual Governance Statement has been prepared in accordance with proper practice specified by CIPFA and is consistent with my overall findings from the audit.

Value for Money

- 6 I am satisfied that Suffolk Police Authority has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. I therefore propose issuing an unqualified conclusion on the use of resources by 30 September 2008 (a draft auditor's report is attached at Appendix 1).
- 7 The Authority has taken a positive and constructive approach to the audit and I would like to take this opportunity to express my appreciation for the Authority's and Constabulary's assistance and co-operation.

Next steps

- 8 I ask the Monitoring and Audit Committee to:
 - consider the matters raised in the report; and
 - approve the representation letter on behalf of the Authority before I issue my opinion, conclusion on the use of resources and certificate.

Financial statements and Annual Governance Statement

- 9 The Authority's financial statements and Annual Governance Statement are important means by which the Authority accounts for its stewardship of public funds. As Authority Members you have final responsibility for the financial statements and Annual Governance Statement. It is therefore important that you consider my findings before I issue my opinion, conclusion on the use of resources and certificate.
- 10 In planning my audit I identified specific risks and areas of judgement that I have focused on during my audit. I report to you the findings of my work in those areas.
- 11 In addition, auditing standards require me to report to you:
- the draft representation letter which I am asking management and you to sign;
 - my views about the Authority's accounting practices and financial reporting;
 - errors in the financial statements;
 - any expected modification to my report;
 - weaknesses in internal control; and
 - certain other matters.

Key areas of judgement and audit risk

- 12 In planning my audit I identified key areas of judgement and audit risk that I have considered as part of my audit. My findings are set out in Table 1.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
There is a risk that changes to the Statement of Recommendation Practice (SoRP) for 2007/08 are not reflected in the financial statements.	No significant departures from the SoRP are evident from the audit of the financial statements.
The Authority and Constabulary have entered into a PFI partnership with Norfolk for the construction of several custody centres across the consortium. There is a risk that complex capital transactions may not be properly reflected in the financial statements.	Audit work has been deferred until 2008/09, as both Suffolk and Norfolk Police Authorities have been managing project delays, which have been beyond the control of both Authorities. I will continue to assess the risks for the financial statements as the project proceeds.

Financial statements and Annual Governance Statement

Issue or risk	Finding
Suffolk is a member of the six counties group, a collaboration of neighbouring Authorities and Forces with a view to delivering efficiencies and/or improved services. Partnership working, project management and affordability will be key to delivering the desired outcomes.	The commitment to working in collaboration with neighbouring constabularies has been sustained, although as yet there are no significant outcomes in terms of efficiency gains, Work is continuing into 2008/09 with the establishment of a proposed Joint Statutory Committee with Norfolk Police Authority.
My assessment of Internal Audit is due for review in 2007/08. There is a risk that I may not be able to continue to place maximum reliance on Internal Audit's work.	My triennial review concluded that the Internal Audit function provided by Suffolk County Council to the Suffolk Police Authority is compliant with the Code of Practice for Internal Audit in Local Government. The findings of the review have been reported to the Monitoring and Audit Committee.
Revision of processes and procedures as part of the Oracle implementation project in 2007/08 following the end of the Authority's contract with Customer Services Direct (CSD).	No significant issues have arisen from the Oracle implementation project, which brought key systems in-house from CSD from 1 November 2007.

Draft representation letter

13 Before I issue my opinion, auditing standards require me to obtain from you and management, written representations that:

- you acknowledge your collective responsibility for preparing financial statements in accordance with the applicable financial reporting framework;
- you have approved the financial statements;
- you acknowledge your responsibility for the design and implementation of internal controls to prevent and detect fraud and error;
- you have told me the results of your assessment of the risk that the financial statements might be materially misstated because of fraud;
- you have told me of any actual or suspected fraud by management, employees with significant roles in internal control or others (where the fraud could have a material impact on the financial statements);
- you have told me of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;

- you have told me about all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements;
- you have assessed the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Authority where relevant to the fair value measurements or disclosures;
- you are satisfied that all related parties requiring disclosure in the financial statements have been disclosed and that the disclosure is adequate;
- you are satisfied that the individual or collective impact of errors I have identified, but that you have not corrected, is not material; and
- cover areas where other sufficient appropriate evidence cannot reasonably be expected to exist, for example the completeness of the disclosure of contingent liabilities.

14 Appendix 2 contains the draft of the letter of representation I seek from you.

Accounting policies and financial reporting

15 I considered the qualitative aspects of your financial reporting and have not identified any significant issues to raise with you.

Errors in the financial statements

16 Two amendments have been made within the financial statements to draw to the attention of Members. These amendments have had a nil impact on the cost of services, but are reported to you to gain an understanding of why the financial statements have been amended. In addition, I have reported separately to management on areas that can be improved within both significant financial systems and the financial statements.

17 Management has agreed to adjust the financial statements for the two amendments identified below so that the relevant statements are in line with the Statement of Recommended Practice (SoRP).

- Within the Income and Expenditure Account, under Division of Service, Police Services was split between Crime (net £64.755m) and Policing in the Community: (net £58.091m) but both have now been amalgamated into one line called Police Services (total net expenditure £122.846m).
- Home Office Circular 11/2008 issued on 30 May 2008 introduced new factors for calculating the lump sums payable to police officers. The changes were backdated to 1 October 2007. The lateness of the issue of the Circular meant that the Authority approved the financial statements prior to this amendment being made. The Police Pension Fund account has subsequently been amended to reflect an additional liability of £0.321m, which increases the amount transferred from the Police General Fund (Statement of Movement on General Fund Balances) and the amount recouped through an increase in the top-up grant from the Home Office (Income and Expenditure Account).

Financial statements and Annual Governance Statement

The auditor's report

18 I plan to issue an unmodified auditor's report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of the draft auditor's report.

Material weaknesses in internal control

19 I have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.

20 I have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made. I have reported only those matters which have come to my attention because of the audit procedures I have performed.

Other matters

21 There are no other matters that auditing standards require me to report to you.

Value for money

- 22** I am required to conclude whether the Authority put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. I assess your arrangements against 12 criteria specified by the Commission. My conclusion is informed by my work on Use of Resources and a scored judgement is reported to the Audit Commission.
- 23** I have assessed the arrangements of the Authority as adequate in all 12 areas specified by the Audit Commission and I therefore propose to issue an unqualified conclusion on the use of resources.

Formal audit powers

24 I have:

- a power to issue a public interest report. I do so where I believe this is necessary to draw a matter to your attention, or to that of the public;
- a power to apply to court for a declaration that an item in the Authority's accounts is contrary to law;
- a power to issue an advisory notice. An advisory notice requires the Authority to meet and consider the notice before:
 - making a decision that might give rise to unlawful expenditure; or
 - taking an unlawful course of action that would give rise to a loss; or
 - making unlawful entry in the accounts; and
- a power to seek judicial review of a decision of the Authority.

25 I have not and do not propose to exercise these powers.

Independence

- 26** The Code of Audit Practice and the APB's Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.
- 27** I confirm that I comply with the APB's Ethical Standards, that I am independent and that my objectivity is not compromised.
- 28** I communicate to you:
- any relationships between me and the Authority, its Members and senior management that might affect my objectivity and independence and any safeguards put in place;
 - total fees charged to you for audit and non-audit services; and
 - my arrangements to ensure independence and objectivity.

Relationships with the Authority

- 29** I have identified no relationships that might affect objectivity and independence.

Audit fees

- 30** I reported my fee proposals as part of the Audit Plan for 2007/08. The table below reports the outturn fee against that plan.

Table 2 Audit fees

	Plan 2007/08	Actual 2007/08
Financial statements and Annual Governance Statement	47,000	47,000
Value for Money	31,650	31,650
National Fraud Initiative	350	350
Total Audit Fees	79,000	79,000

- 31** The analysis above shows that I contained the audit fee within the totals you have already agreed. In the Audit Plan, time had been set aside for consideration of the Authority's view of the accounting treatment associated with the Joint Custody Private Finance Initiative Scheme. The Scheme has been delayed, but the audit time set aside has been re-deployed to undertake audit work associated with the Oracle implementation project and the introduction of in-house financial systems to replace financial systems previous operated by Customer Services Direct.

Independence

32 Under the Audit Commission's advice and assistance power it may provide non-audit services to the Authority. During 2007/08, no non-audit services have been provided to Suffolk Police Authority.

Arrangements to ensure independence and objectivity

33 The Audit Commission has comprehensive procedures to ensure independence and objectivity. These are outlined in Table 3.

Table 3 Arrangements to ensure independence and objectivity

Area	Arrangements
Independence policies	<p>The Audit Commission's policies and procedures ensure that professional staff or an immediate family member:</p> <ul style="list-style-type: none">• do not hold a financial interest in any audit clients;• may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; and• may not enter into business relationships with UK audit clients or their affiliates. <p>The Audit Commission's procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none">• the general requirement to carry out work independently and objectively;• safeguarding against potential conflicts of interest;• acceptance of additional (non-audit) work;• rotation of key staff;• other links with audited bodies;• secondments;• membership of audited bodies;• employment by audited bodies;• political activity; and• gifts and hospitality.
Code of Conduct	<p>The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff have to comply with ethical guidance issued by their relevant professional bodies</p>
Confidentiality	<p>All staff are required to sign an annual undertaking of confidentiality as a condition of employment.</p>

Appendix 1 – Draft Independent Auditor's Report to Members of Suffolk Police Authority

Draft Opinion on the financial statements

I have audited the accounting statements, the police pension fund accounting statements and related notes of Suffolk Police Authority for the year ended 31 March 2008 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Balance Sheet, Statement of Total Recognised Gains and Losses, Cash Flow Statement, and the related notes. The police pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial statements and police pension fund accounting statements have been prepared under the accounting policies set out within them.

This report is made solely to the Members of Suffolk Police Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Treasurer and auditor

The Treasurer's responsibilities for preparing the financial statements, including the police pension fund accounting statements, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements, the police pension fund accounting statements and related notes present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial transactions of its police pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Appendix 1 – Draft Independent Auditor's Report to Members of Suffolk Police Authority

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements, the police pension fund accounting statements and related notes and consider whether it is consistent with the audited accounting statements, the police pension fund accounting statements and related notes. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements, the police pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements, the police pension fund accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements, the police pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements, the police pension fund accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements, the police pension fund accounting statements and related notes.

Draft Opinion

In my opinion:

- the accounting statements and related notes present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended; and

- the police pension fund accounting statements present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial transactions of the police pension fund during the year ended 31 March 2008 and the amount and disposition of the fund's assets and liabilities as at 31 March 2008, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Draft Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for police authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Draft Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for police authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, Suffolk Police Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Robert Davies

District Auditor XX September 2008

The Audit Commission, Ground Floor Crown House, Crown Street, Ipswich, Suffolk, IP1 3HS.

Appendix 2 – Draft letter of representation

To:

Robert Davies

District Auditor

The Audit Commission

Ground Floor

Crown House

Crown Street

Ipswich

Suffolk

IP1 3HS

Date: XXXX September 2008

Suffolk Police Authority - Audit for the year ended 31 March 2008

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of the Suffolk Police Authority and Constabulary, the following representations given to you in connection with your audit of the Suffolk Police Authority's financial statements for the year ended 31 March 2008. All representations cover the Authority's accounts and Pension Fund accounts included within the financial statements.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which present fairly the financial position and financial performance of Suffolk Police Authority and for making accurate representations to you.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Suffolk Police Authority have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Suffolk Police Authority and Monitoring and Audit Committee meetings, have been made available to you.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of Suffolk Police Authority .

Suffolk Police Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements.

For the assumptions for borrowings and short term investments, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework;.

Appendix 2 – Draft letter of representation

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Post balance sheet events

Since the date of approval of the financial statements by the Monitoring and Audit Committee on 27 June 2008, no additional significant post balance sheet events have occurred, which would require additional adjustment or disclosure in the financial statements.

Suffolk Police Authority has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Signed on behalf of Suffolk Police Authority.

I confirm that the this letter has been discussed and agreed by the Monitoring and Audit Committee on 26 September 2008

Signed:

Name: Chris Bland

Position Treasurer to Suffolk Police Authority

Date XX September 2008

The Audit Commission

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, covering the £180 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.

Copies of this report

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