

# Annual governance report

Derbyshire Police Authority

Audit 2011/12

ANNEX A TO  
AGENDA ITEM 9A  
POLICE AUTHORITY  
27 SEPTEMBER 2012



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# Key messages

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**This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

## Financial statements

I expect to issue an unqualified audit opinion.

The arrangements for the preparation and submission of financial statements remained good and were consistent with the previous year. The financial statements presented for audit were complete and supported by good quality working papers. The audit process was aided by the prompt response of officers to requests for additional information made by the audit team. During the audit, management agreed to make minor adjustments to the accounts in response to our recommendations. These adjustments had no impact on the Authority's operating costs.

## Value for money (VFM)

I expect to conclude that there are no matters arising from my VFM work that I need to report. My work in 2011/12 has included:

- reviewing the Annual Governance Statement (AGS);
- consideration of your arrangements for managing the transition to the new Police & Crime Commissioner; and
- reviewing the results of the work of other relevant regulatory bodies or inspectorates, to consider whether there is any impact on my responsibilities.

# Before I give my opinion and conclusion

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**My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.**

## Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2011/12.

## I ask the Police Authority to:

- take note of the comments relating to the audit of the financial statements included in this report; and
- approve the letter of representation (appendix 2), on behalf of the Authority before I issue my opinion and conclusion.

# Financial statements

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**The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.**

## **Opinion on the financial statements**

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

## **Uncorrected errors**

There were no uncorrected errors.

## **Corrected errors**

There were no errors which required correction.

## **Significant risks and my findings**

I reported to you in my 2011/12 Audit Plan that there were no new significant or material risks that I identified relevant to my audit of your financial statements.

## Significant weaknesses in internal control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

## Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following.

- Qualitative aspects of your accounting practices;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions; and
- Other audit matters of governance interest.

There are only two matters I wish to report.

Table 1: **Other matters**

Issue	Finding
Valuation of Specialised Assets – custody suites.	There is an anomaly between the Code of Practice guidance re Depreciated Replacement Cost (DRC) valuations and the RICS guidance used by valuers. RICS guidance states that finance costs should be included in the valuation but the Code of Practice states that valuations should be based on the assumption of 'instant build' and so no finance costs should be included. There is a risk that the valuations will be overstated if the code of practice guidance has not been followed. The valuation of specialised assets at Derbyshire includes finance costs with a value of £272k. Officers will draw this requirement to the attention of valuers next year.

## Issue

Police Pension Account - Top up grants.

## Finding

Technical guidance issued by the Audit Commission regarding the treatment of the grant requires both the expenditure and income relating to the account should be shown on the same line in the Comprehensive Income and Expenditure Statement (CIES) 'Home Office Grant Payable towards the Cost of Retirement Benefits'. This was not done at Derbyshire where the income has been shown on this line with the expenditure shown within the net cost of services (in accordance with the CIPFA Code Guidance Notes). This means the balance is adjusted out in the Movement In Reserves Statement (MIRS).

We requested an additional line in the accounting policies to confirm DPA has followed the Guidance Notes in their treatment of the police pension fund top-up grant and are satisfied that the treatment has been consistently applied and that there is no material impact on the Police Fund.

## Whole of Government Accounts

Alongside my work on the financial statements, I have also reviewed and reported to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report were specified by the National Audit Office. I have no matters to report.

# Value for money

**I am required to conclude whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.**

The Police Reform and Social Responsibility Act received royal assent in September 2011. It abolishes police authorities, replacing them outside London with directly elected police and crime commissioners, to be elected in November 2012. In light of this, the Audit Commission decided that I discharge my responsibilities in respect of value for money by:

- reviewing the Annual Governance Statement (AGS);
- reviewing the results of the work of other relevant regulatory bodies or inspectorates, to consider whether there is any impact on my responsibilities; and
- undertaking risk-based work taking into account guidance from the Audit Commission.

In my 2011/12 Audit Plan I reported to you the significant risks that were relevant to my vfm conclusion. I have set out below the findings of my work addressing each of the risks I identified and the resultant impact on my vfm conclusion.

Table 2: **Significant risks**

Risk	Finding	Impact on VFM conclusion
Financial resilience - the requirement to manage budget reductions and achieve savings and efficiencies continues to place the Authority's financial health under strain.	I monitored the latest financial strategy and the Authority's response to risk areas over the medium and longer term and monitor achievements and developments of the Moving Forward Programme.	The Authority has an established programme of integrated financial planning and a Medium Term Financial Plan (MTFP) linked to service priorities and underpinned by evidence of careful consideration of budget proposals going forward together with stakeholder consultation. The plan is responsive to the current financial environment and has a structured approach to delivery of savings.  Throughout 2011/12 the Authority continued operating

Risk	Finding	Impact on VFM conclusion
<p>Transition arrangements for the Police and Crime Commissioner may not be addressed or completed within appropriate timescales.</p>	<p>In conjunction with HMIC I undertook a brief focussed review of the transition arrangements. This assessed whether the scope and timescales for the transition are recognised and arrangements are in progress.</p> <p>Areas reviewed as part of this process were:</p> <ul style="list-style-type: none"> <li>■ Is the police authority ensuring business as usual until November 2012?</li> <li>■ Has the police authority got a plan for managing the transition to PCCs?</li> <li>■ Are arrangements in place to secure a seamless handover to PCCs?</li> <li>■ Are other stakeholders properly involved in the</li> </ul>	<p>within its budget and achieved revenue and capital surpluses which exceeded that forecast and reported to the Police Authority throughout the year. The reasons for this achievement are understood and will help address future pressures and forecast budget gap from 2014/15. There is evidence that the Authority provides challenge and scrutiny to financial plans. The precept report provides different budget options and opportunities to members which enables early action to prepare for the challenges.</p> <p>Revenue and capital monitoring is undertaken by the Resources Committee and has overseen the delivery of significant efficiency savings in recent years. This continues to be a significant achievement in a difficult financial environment, and is supportive of our overall vfm conclusion.</p> <p>The topics covered by HMIC as part of their review - and to which we have been included, demonstrate that the arrangements which Derbyshire Police Authority has in place are effective and should help a smooth transition to the new PCC and also enable effective governance by the Authority in the build up to that transfer.</p> <p>The findings from this review are set out in the report issued by HMIC.</p> <p>HMIC will be undertaking follow up reviews across Police Authorities in the near future.</p>

**Risk**

**Finding**

**Impact on VFM conclusion**

transition process?

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I have reviewed your AGS and I have no matters that I need to report.

# Fees

## I reported my planned audit fee in the 2011/12 Audit Plan.

I will complete the audit within the planned fee.

Table 3: **Fees**

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	75,900	75,900
Non-audit work	0	0
<b>Total</b>	<b>75,900</b>	<b>75,900</b>

The Audit Commission has paid a rebate of £6,072 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £69,828.

# Appendix 1 – Draft independent auditor's report

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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DERBYSHIRE POLICE AUTHORITY

### Opinion on the Authority and Pension Fund accounting statements

I have audited the financial statements and the police pension fund financial statements of Derbyshire Police Authority for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Movement in Reserves Statement, the Cash Flow Statement and the related notes. The police pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Derbyshire Police Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### Respective responsibilities of the Treasurer and auditor

As explained more fully in the Statement of the Treasurer's Responsibilities, the Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements and the police pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting

policies are appropriate to the Authority and Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view of the financial position of Derbyshire Police Authority as at 31 March 2012 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial transactions of the police pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

### **Opinion on other matters**

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which I report by exception**

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

### **Other matters on which I am required to conclude**

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am also required by the Audit Commission's Code of Audit Practice to report any matters that prevent me being satisfied that the audited body has put in place such arrangements.

I have undertaken my audit in accordance with the Code of Audit Practice and, having regard to the guidance issued by the Audit Commission in October 2011, I have considered the results of the following:

- my review of the annual governance statement;
- the work of other relevant regulatory bodies or inspectorates, to the extent the results of the work have an impact on my responsibilities; and
- my locally determined risk-based work on the Authority's arrangements for the transition to the Police & Crime Commissioner.

As a result, I have concluded that there are no matters to report.

John Cornett

Officer of the Audit Commission

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# Appendix 2 – Draft letter of management representation

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## **Derbyshire Police Authority - Audit for the year ended 31 March 2012**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other members of Derbyshire Police Authority, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

### **Compliance with the statutory authorities**

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

### **Supporting records**

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

### **Irregularities**

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

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;
- 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; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

### **Law, regulations, contractual arrangements and codes of practice**

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The 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.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

### **Accounting estimates including fair values**

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

### **Related party transactions**

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

### **Subsequent events**

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Derbyshire Police Authority

I confirm that the this letter has been discussed and agreed by the Authority on

Signed

Name

Position

Date

# Appendix 3 – Glossary

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## **Annual Audit Letter**

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

## **Annual Governance Statement**

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.

## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

## **Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

### **Auditor(s)**

Auditors appointed by the Audit Commission.

### **Code (the)**

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

### **Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

### **Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

### **Financial statements**

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

### **Group accounts**

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

### **Internal control**

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

### **Materiality**

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement

within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

### **Significance**

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

### **Those charged with governance**

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

### **Whole of Government Accounts**

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

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

