

Police Use of Resources - Feedback Report

Merseyside Police Authority

Audit 2006/07

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Introduction

- 1 This report presents the results of the 2006/07 police use of resources assessment (PURE) at Merseyside Police Authority. As the Audit Commission's appointed auditor to the Authority, we undertook this review during the period April - May 2007, as part of our responsibility to examine the economy, efficiency and effectiveness of the Authority's use of resources under section 5(1)(e) of the Audit Commission Act 1998.
- 2 We have completed our review in accordance with the methodology and guidance issued by the Audit Commission (the Commission). The results have been subject to internal and national quality control arrangements, designed to ensure compliance with the methodology and guidance, and to promote consistency.
- 3 This report summarises the approach taken and the results of the assessment. It also highlights areas for improvement based on the criteria issued by the Commission.

Approach and scoring

- 4 The PURE assessment enables auditors to form judgements on the Police Authority and Force arrangements to secure effective use of resources across the five themes of financial reporting, financial management, financial standing, internal control and value for money.
- 5 Each theme consists of a number of key lines of enquiry (KLOEs) and areas of audit focus and evidence. There are also descriptions of performance against each key line of enquiry showing performance at levels 2, 3 and 4. These translate into the following judgements:
 - 1 = below minimum requirements – inadequate performance;
 - 2 = only at minimum requirements – adequate performance;
 - 3 = consistently above minimum requirements – performing well; and
 - 4 = well above minimum requirements – performing strongly.
- 6 The Commission will determine the overall use of resources score by combining the auditor's separate scores for each of the themes covered.
- 7 In forming our assessment, we take into account requirements of the methodology set out in the PURE guidance to auditors and briefings to police authority treasurers and force finance directors issued in February 2007. This is the second year that auditors have undertaken PURE and the key principle is one of a risk based and proportionate refresh from 2005/06, where auditor judgements and assessments are based on:
 - key changes to the KLOE criteria referred to in police authority guidance;
 - actions by police authorities and forces to address improvement opportunities identified in the 2005/06 PURE assessment, and where relevant, additional HMIC recommendations linked to the 2005/06 baseline assessment on finance and resources;
 - to support scores of 3 and above, considering whether relevant arrangements are 'embedded'; that is, they have been operating consistently with clear outputs and are having an impact; and
 - for scores of 4 (performing strongly) considering whether, in addition to meeting the descriptors/criteria, police authorities can demonstrate innovation or best practice that can be shared with others.

Summary of scores for Merseyside Police Authority

- 8 The score for each theme is summarised below, which includes comparative judgements for 2005/06. The next section of this report provides key messages, strengths and areas for improvement across the Police Authority and Force by theme level.

Table 1 Merseyside Police Authority - summary of scores

Merseyside Police Authority has improved in its use of resources in 2006/07.

Use of resources theme	2006/07 score	2005/06 score
Financial reporting	3	3
1.1 Annual accounts	3	3
1.2 External accountability	2	2
Financial management	3	2
2.1 Medium-term financial strategy	3	2
2.2 Performance against budgets	2	2
2.3 Asset management	3	2
Financial standing	3	2
3.1 Financial standing	3	2
Internal control	2	2
4.1 Risk management	3	2
4.2 Internal control	2	2
4.3 Probity and Propriety	2	2
Value for money	3	2
5.1 Achieving VFM	3	2
5.2 Managing VFM	3	2

Source: Audit Commission

Key messages and actions for the Police Authority

- 9 This summary sets out key findings; both overall for the Police Authority and Force and in relation to each theme, summarising strengths and areas for improvement.

Overall messages

- 10 The overall messages from our work are as follows.
- The Authority and Force have improved arrangements for managing their use of resources during 2006/07.
 - Financial reporting arrangements are good but there is scope to improve external accountability by producing more summarised financial information.
 - Financial management has been strengthened and improved over the last year. The Medium-Term Financial Strategy and other key documents are now aimed more clearly at delivering strategic priorities. Links between business and financial planning are clearer and form the basis of resource allocation. Budget management has improved but there is still scope to develop further in areas such as improving links with operational activity indicators and risk assessment. Asset management arrangements have also improved with examples including clear management responsibilities and local performance indicators for assets.
 - Arrangements for financial standing have improved and are now assessed as good. A risk-based approach to determining the required level of reserves has been developed; addressing the key recommendation from our work in 2005/06.
 - Internal control arrangements have improved but there remains scope for further development. Risk management arrangements have developed and are now considered good. The system for internal control is adequate and could be improved by developing the 'audit committee' role of the Resources and Strategy Committee so that it becomes more proactive and effective in its leadership on audit and governance issues. Committee members may also benefit from specific training on audit and governance issues. Arrangements for probity and propriety are adequate with opportunities to develop the role of the Standards Committee.

- Arrangements for achieving value for money have improved. In addition to specific improvements in performance and value for money, the Force and Authority are now better able to demonstrate their achievements. Some elements of performance have improved significantly, for example reductions in crime levels and increases in sanctioned detections. At the same time, cost pressures have been contained. The Authority has invested in both national and local priorities, with a unit to tackle level 3 criminality and an anti-social behaviour team working in partnership with other agencies. Service improvement reviews continue to be undertaken but would benefit from clearer indications of expected benefits to assess whether outcomes are in line with expectations.

Role of the Police Authority

- 11 As well as its formal responsibility for approving the annual accounts, the Police Authority provides financial scrutiny. This involves approving the budget and the medium term financial strategy on an annual basis. These documents are integrated with business planning to ensure that resources are allocated in order to achieve the Authority's strategic objectives. Performance against budget is monitored through quarterly budget monitoring reports. The Authority receives reports on the performance of assets, enabling it to identify how effectively assets are being utilised. There is scope to carry out sensitivity analysis around budgets and put in place more formalised arrangements to risk assess material items of revenue and capital income and expenditure.
- 12 The Authority ensures reserves are adequate to meet unexpected demands on its service, without compromising the delivery of strategic objectives. A risk based approach is used to ensure levels of reserves are appropriate. The Authority has a good record of maintaining expenditure within available resources.
- 13 Authority members contribute to the risk management process and have received risk management awareness training to assist them in fulfilling their responsibilities. The Resources and Strategy Committee receives regular updates on the management of risks across the Authority and the Force. Members of the Authority approve the annual Statement of Internal Control (SIC) and receive appropriate information to enable them to form a view on its contents. There is scope to improve arrangements for scrutiny and challenge by members, by ensuring that the Resources and Strategy Committee (in its audit committee role) develops a more proactive leadership role around governance issues. Members may benefit from specific training on audit and governance responsibilities.
- 14 The Authority needs to demonstrate more clearly that it is fulfilling its responsibility to be proactive in the raising ethical standards. For example, the Standards Committee plans to produce an annual review of standards of conduct issues but this has not yet happened. The Authority needs to complete this and demonstrate its commitment to raising standards.

Actions for Police Authority members

- 15 The key actions for Police Authority members in ensuring a continued focus on effective use of resources are as follows.
- Publish summary financial information that would be more understandable to stakeholders.
 - Continue to develop budget monitoring arrangements so there are clearer links with operational activity indicators and more emphasis on risk assessment.
 - Develop the 'audit committee' role of the Resources and Strategy Committee so it becomes more proactive and effective in its leadership on audit and governance issues. There may be benefits from providing specific training on audit and governance issues to members.
 - Implement the Standards Committee plans to report regularly on standards of conduct.
 - Continue to develop arrangements for improving value for money by:
 - addressing the possibility that Public Service Agreement targets will not be met;
 - show how activity based costing and activity analysis will be used to challenge existing resource allocation; and
 - develop targets within service improvement reviews so benefits can be assessed.

Theme summaries

Financial reporting

Theme score – 3	
Purpose	
To assess the strength of the Authority and Force financial accounting and reporting arrangements.	
Key findings and conclusions	
<p>Our work on the audit of the 2006/07 annual accounts confirm that the Authority's financial reporting arrangements remain at a good standard. The accounts did not contain any material errors and the amendments made related to how items were disclosed. Supporting working papers and cooperation from officers remains good.</p> <p>External accountability remains adequate. This could be improved by publishing more summarised financial information that would be more understandable to stakeholders.</p>	
Improvement opportunities	
KLOE 1.1 The authority produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	<p>R1 Continue to develop the quality of the annual accounts by:</p> <ul style="list-style-type: none"> introducing additional quality control procedures so the accounts contain only trivial errors; and further developing the quality of working papers.
KLOE 1.2 The authority promotes external accountability.	R2 Develop and publish summary financial information that is more accessible to stakeholders.

Financial management

Theme score - 3	
Purpose	
To assess how well the authority and force plan and manage its finances.	
Key findings and conclusions	
<p>Financial management arrangements have been strengthened in the last year. The Medium-Term Financial Strategy (MTFS), budget and capital programme are now aimed more clearly at delivering strategic priorities. Links between business and financial planning are more evident, and this forms the basis of resource allocation within the MTFS and the annual budget. Budgets also take account of a risk assessment of material items and business planning now involves three year projections and covers key features.</p> <p>Budget management has also improved in a number of areas including predictive monitoring and reports of progress in achieving planned savings. There are however, some areas that can be developed further including the need for clearer links with operational activity indicators and risk assessment.</p> <p>There have been developments in asset management arrangements including clearer management responsibilities, examples of good option appraisal for major decisions and local performance indicators in relation to estates, ICT and the vehicle fleet.</p>	
Improvement opportunities	
<p>KLOE 2.1 The authority's medium-term financial strategy (MTFS), budgets and capital programme are soundly based and designed to deliver its strategic priorities.</p>	<p>R3 Continue the development of the MTFS by:</p> <ul style="list-style-type: none"> • reflecting joint plans agreed with partners; • model key balances and resource requirements over the three year period; • identify and proactively manage future developments that may impact on financial management arrangements; and • monitor and demonstrate how financial plans have contributed to the achievement of policing objectives.

Improvement opportunities	
KLOE 2.2 The authority and force manage performance against budgets.	R4 Develop budget monitoring so that there are clearer links with operational activity indicators and more emphasis on risk assessment.
KLOE 2.3 The authority and force manage their asset base (including their estate and vehicle fleet) and their IM&T service.	R5 Develop asset management arrangements further by: <ul style="list-style-type: none"> • co-ordinating and integrating asset information with financial information; • developing performance measurement to demonstrate how changes in asset use improve operational performance; and • communicate key performance measurement results to stakeholders.

Financial standing

Theme score - 3	
Purpose	
To assess how well the authority safeguards its financial standing.	
Key findings and conclusions	
The Police Authority's arrangements for safeguarding its financial standing have developed further in the last year and are now assessed as good. A risk-based approach to determining the required level of reserves has now been developed. This was the key recommendation from our work in 2005/06 and has now been addressed.	
Improvement opportunities	
KLOE 3.1 The authority manages its spending within the available resources.	<p>R6 Develop the monitoring of financial health indicators by members, involving monitoring against targets.</p> <p>R7 Where target levels of reserves are achieved, identify and report the opportunity costs vs. benefits of maintaining these levels.</p>

Internal control

Theme score - 2	
Purpose	
To assess how well the authority's and force's internal control environment enables them to manage their significant business risks.	
Key findings and conclusions	
<p>Internal control arrangements have improved in some areas but there remains scope for further development.</p> <p>Risk management arrangements have developed and are now considered good. The business risk management process was reviewed during 2006/07 and the Force risk management policy was updated. Risk registers for the Force and Authority are reviewed and updated regularly and there is a new risk register for risks applying to both the Authority and Force.</p> <p>The system for internal control is adequate. This can be improved further by developing the 'audit committee' role of the Resources and Strategy Committee so that it becomes more proactive and effective in its leadership on audit and governance issues. Committee members may benefit from specific training on audit and governance issues in order to fulfil their role more effectively.</p> <p>Arrangements for probity and propriety are adequate with good examples of providing training and guidance designed to improve standards of ethical conduct amongst staff and members. The key area to develop is the role of the Standards Committee. There are plans for the Committee to report on standards of conduct but this has not yet occurred.</p>	
Improvement opportunities	
<p>KLOE 4.1 The authority and force manage their significant business risks.</p>	<p>R8 Risk management can be developed further by:</p> <ul style="list-style-type: none"> • a senior officer and member taking overall responsibility for embedding business risk management throughout the Authority and Force; • demonstrating business risk management is embedded in corporate business processes; • all appropriate Authority members and senior officers receiving risk management awareness training; and • the Authority and Force considering positive as well as negative business risks.

Improvement opportunities	
KLOE 4.2 The authority and force have arrangements in place to maintain a sound system of internal control.	<p>R9 Develop the 'audit committee' role of the Resources and Strategy Committee so that it becomes more proactive and effective in its leadership on audit and governance issues.</p> <p>R10 Consider specific training on audit and governance issues to members of the Resources and Strategy Committee.</p>
KLOE 4.3 The authority and force have arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	R11 Implement the Standards Committee plans to report regularly on standards of conduct.

Value for money

Theme score - 3
Purpose
To assess the achievement of value for money within the authority and force and to conclude on the robustness of arrangements to secure improvements.
Key findings and conclusions
<p>The Authority's and Force's arrangements for achieving and improving value for money are assessed as good.</p> <p>Merseyside has reduced crime by 13 per cent over the past year, with life-threatening/gun crime down by 20 per cent. The Force is improving its performance in terms of sanctioned detections: domestic burglary, auto crime and robbery are all improving strongly.</p> <p>User satisfaction is above average in all basic command units (BCUs) and, compared with its most similar force (MSF) group, residents believe the police have a reasonable understanding of community issues.</p> <p>All Crime and Disorder Reduction Partnerships (CDRPs) show an overall reduction on the PSA1 target for reducing crime, but based on Home Office iQuanta analysis, three out of five are projected to miss their 2007/08 PSA1 target. Domestic burglary and unauthorised taking of a motor vehicle have generally reduced across all CDRPs.</p> <p>The Force has structured itself to deliver national and local priorities. For national priorities, it has established a dedicated team to tackle Level 3 criminality, particularly in relation to Class A drugs and firearms.</p> <p>For local priorities, it continues to lead on neighbourhood policing, supported by a newly-created anti-social behaviour (ASB) taskforce. The Police Authority has invested in priority areas to improve services such as neighbourhood policing and tackling ASB. Evidence suggests the additional investment has led to improvements in services.</p> <p>Costs have been contained. They were 4 per cent above the MSF average, but are now only 2 per cent above.</p> <p>The Force and Authority have a track record of reviewing costs to ensure services provide value for money. Achieving savings and remaining within a tight budget framework is a key priority. There is a strong management structure, through the Chief Officer Group and member committees, to support this.</p> <p>The Force has been successful in achieving efficiency savings and has identified cashable and non-cashable savings in excess of the efficiency review targets. It has, for example, made significant savings on energy costs through awareness raising and training of energy champions.</p>

Key findings and conclusions	
<p>There is an active programme of service reviews but the absence of expected quantified benefits makes it impossible to assess whether the reviews have achieved the desired outcomes.</p> <p>Activity based costing (ABC) and activity analysis (AA) are now used to monitor performance in relation to crime and detections, as well as availability of officers and staff for service. There is, however, scope to develop links to strategic planning.</p>	
Improvement opportunities	
KLOE 5.1 The authority and force currently achieves good value for money.	R12 Identify the actions required to address the possibility that PSA1 targets will not be met.
KLOE 5.2 The authority and force manage and improve value for money.	<p>R13 Demonstrate how ABC and AA are used to challenge existing resource allocation and as an information source to inform strategic planning.</p> <p>R14 Include SMART targets as part of the service improvement review process in order that actual vs. expected benefits can be assessed.</p>

Status of the report and next steps

- 16 This report has been discussed and agreed with senior officers of the Police Authority and Force.
- 17 We will present the report to the Resources and Strategy Committee in November 2007. The Authority then needs to establish a mechanism for monitoring the implementation of our recommendations to develop its arrangements further, using the action plan at Appendix 1.
- 18 We will also report the key messages from this work in our 2006/07 Annual Audit Letter.

Appendix 1 – Action plan

Page no.	Recommendation	Agreed?	Comments
<i>Financial reporting</i>			
10	R1 Continue to develop the quality of the annual accounts by: <ul style="list-style-type: none"> • introducing additional quality control procedures so the accounts contain only trivial errors; and • further developing the quality of working papers. 	yes	
10	R2 Develop and publish summary financial information that is more accessible to stakeholders.	yes	Summary financial information is currently being prepared. This will be published on the Authority's website.
<i>Financial management</i>			
11	R3 Continue the development of the MTFS by: <ul style="list-style-type: none"> • reflecting joint plans agreed with partners • modelling key balances and resource requirements over the three year period • identifying and proactively manage future developments that may impact on financial management arrangements • monitoring and demonstrating how financial plans have contributed to the achievement of policing objectives. 	yes	These issues are already addressed but it is recognised that they need to be fully incorporated into the Medium Term Financial Strategy.

Page no.	Recommendation	Agreed?	Comments
12	R4 Develop budget monitoring processes so there are clearer links with operational activity indicators and more emphasis on risk assessment.	yes	Budgetary information is currently included in performance reports but not vice versa. Performance information will be incorporated into budgetary reports.
12	R5 Develop asset management arrangements further by: <ul style="list-style-type: none"> • co-ordinating and integrating asset information with financial information; • developing performance measurement to demonstrate how changes in asset use improve operational performance; and • communicate key performance measurement results to stakeholders. 	yes	To be actioned through Estate Strategy and Resources and Strategy Committees.
<i>Financial standing</i>			
13	R6 Develop the monitoring of financial health indicators by members, involving monitoring against targets.	yes	
13	R7 Where target levels of reserves are achieved, identify and report the opportunity costs vs. benefits of maintaining these levels.	yes	This will be included within the Treasurer’s Annual Robustness report.

Page no.	Recommendation	Agreed?	Comments
<i>Internal control</i>			
14	R8 Develop risk management further by: <ul style="list-style-type: none"> • a senior officer and member taking overall responsibility for embedding business risk management throughout the Authority and Force • demonstrating business risk management is embedded in corporate business processes • all appropriate Authority members and senior officers receiving risk management awareness training; and • the Authority and Force considering positive as well as negative business risks. 	yes	
15	R9 Develop the 'audit committee' role of the Resources and Strategy Committee so that it becomes more proactive and effective in its leadership on audit and governance issues.	yes	The terms of reference for Resources and Strategy Committee have been amended to strengthen the 'Audit Committee' role. This will be benchmarked against CIPFA guidance on the role of audit committees.
15	R10 Consider specific training on audit and governance issues to members of the Resources and Strategy Committee.	yes	Joint training for Members is being developed and arranged between the Audit Commission and Internal Audit staff.
15	R11 Implement the Standards Committee plans to report regularly on standards of conduct.	yes	

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Page no.	Recommendation	Agreed?	Comments
<i>Value for money</i>			
17	R12 Identify the actions required to address the possibility that PSA1 targets will not be met.	yes	PSA1 target monitoring is monitored through PRSC in addition to being scrutinised at Force Crimefighters meetings.
17	R13 Demonstrate how ABC and AA are used to challenge existing resource allocation and as an information source to inform strategic planning.	yes	
17	R14 Include SMART targets as part of the service improvement review process in order that actual vs. expected benefits can be assessed.	yes	