

Annual Audit Letter

Merseyside Police Authority

Audit 2008-2009

October 2009



Contents

Key messages	3
Financial statements and annual governance statement	4
Value for money and use of resources	5
Closing remarks	7
Appendix 1 – Use of resources key findings and conclusions	8

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.
-

Key messages

This report summarises the findings from my 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess the arrangements to secure value for money in your use of resources.

Audit Opinion

- 1 The financial statements submitted for audit contained no material errors. I reported some amendments made to the statements following my audit, but none of these are considered significant. I issued an unqualified audit opinion on 30 September 2009.

Use of resources

- 2 As a result of my Use of Resources assessment, I issued an unqualified conclusion stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.
- 3 My assessment showed that the Authority is achieving level 3 performance in each of the three themes. This means it is performing well in the way it manages and uses its resources.

Audit fees

- 4 The total audit fees for the year are shown in table 1 below.

Table 1 **Audit fees**

	Actual	Proposed	Variance
Financial statements and annual governance statement	75,600	75,600	0
Value for money	25,470	25,470	0
Total audit fees	101,070	101,070	0
Non-audit work	0	0	0
Total fees	101,070	101,070	0

Independence

- 5 I confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Financial statements and annual governance statement

The Authority's financial statements and annual governance statement are an important means of accounting for its stewardship of public funds.

Significant issues arising from the audit

- 6 The financial statements were approved by the Authority on 25 June. I identified some errors in the financial statements but none were material. The overall quality of the accounts improved from 2007/08 and the issues reported last year have all been addressed. I issued an unqualified audit opinion on 30 September 2009.
- 7 I did not identify any significant weaknesses in your internal control arrangements.
- 8 I considered the qualitative aspects of your financial reporting and identified scope to disclose expenses as well as allowances in the note of members' expenses within future financial statements.

Value for money and use of resources

I considered how well the Authority is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Authority put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Introduction

- 9 The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. This raises the importance of having effective arrangements in place for the management of scarce financial and other resources.
 - 10 The increasingly difficult economic position will affect the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams. An immediate effect of this at the Authority was a material fall in the value of its land and buildings of £8.7m in 2008/09.
 - 11 There are likely to be further challenges for policy priorities with changes in patterns of demand for services and uncertainties about funding. This affects the audit and as part of my responsibility, I have taken the wider environment and specific issues and risks (and the Authority's response) into account in forming judgments about the robustness of its arrangements for securing value for money from its use of resources.
-

Use of resources judgements

- 12 In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4; with 4 being the highest and 2 representing minimum requirements.
- 13 The Authority's use of resources theme scores are shown in Table 2 below. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 1.

Table 2 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	3
Managing resources	3

- 14** The Authority has achieved level 3 performance in each of the three themes. This shows it is performing well in the way it manages and uses its resources to deliver value for money and better and sustainable outcomes for local people.
- 15** Detailed findings on each theme are included in Appendix 1. This highlights some opportunities to improve arrangements, including:
- Developing the financial monitoring information provided to members to better reflect internal budget monitoring (eg forecasting the projected year end outturn, subjecting budget forecasts to risk or analysis).
 - Making registers of members’ interests and gifts and hospitality available through the Authority’s website.
 - Continuing efforts to reduce the above-average levels of officer and staff absences.

VFM Conclusion

- 16** I assessed the arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. The Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out in Appendix 1.
- 17** I issued an unqualified conclusion stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Treasury Management

- 18** Following the collapse of the Icelandic banks in 2008, the Audit Commission highlighted that treasury management arrangements in local authorities' were of variable quality. As a result, the Commission mandated a work programme on treasury management arrangements.
- 19** My review of the Authority's treasury management did not identify any major concerns. It did however, show a need to review arrangements in the light of recent advice from CIPFA's Treasury Management Panel.

Closing remarks

- 20** I have discussed and agreed this letter with the Chief Executive and will present this letter at the Resources and Strategy Committee on 5 November 2009. I will provide copies to all members.
- 21** Further detailed findings, conclusions and recommendations in the areas covered by my audit are included in the reports issued to the Authority during the year.

Table 3

Report	Date issued
Audit Plan	April 2008
Supplementary Opinion Audit Plan	July 2009
Annual Governance Report	September 2009

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

Julian Farmer
District Auditor
October 2009

Appendix 1 – Use of resources key findings and conclusions

The following tables summarise the key findings and conclusions for each of the three use of resources themes.

Managing finances

Theme score	3
Key findings and conclusions	
<p>There are good arrangements for managing finances with evidence of outcomes showing the Authority is performing well.</p> <p>There are good examples of how the Authority plans its finances to deliver priorities with (eg) service developments linking to policing plan priorities, resources being shifting from low to high priority areas and a major restructuring exercise providing the basis for savings in non-operational areas. The policing plan target-setting process runs parallel to the budget with arrangements recognised as good practice by the Association of Police Authorities.</p> <p>The Authority understands its costs and uses comparative information to review and improve performance. There are examples of ‘invest to save’ schemes and the Force is on target to meet its efficiency targets with no loss of overall performance. Its performance in reducing crime continues to be amongst the highest and in 2008/09 it was 12th best nationally.</p> <p>Arrangements for monitoring performance are effective. The annual accounts have been well-prepared; they meet SoRP requirements and are supported by good working papers. Some errors were identified from our audit work but none of these affected our 2008/09 opinion.</p> <p>Merseyside was the first force to receive Carbon Trust Standard by demonstrating reductions in carbon dioxide emissions of 2.5% as well as high standards in energy management.</p> <p>All Authority reports include an equality and diversity assessment. Material is offered in other formats and is subject to plain English scrutiny. Translations of the Policing Plan summary into different languages were requested and provided.</p>	

Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 1.1 (financial planning)</p> <p>Score</p> <p>VFM criterion met</p>	<p>3</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>The budget provides a clear summary of current and future years' financial scenarios and links with service planning, including an appendix of service developments within the MTFs that link to policing plan priorities. Financial plans show examples of shifting resources from low to high priority areas. For example, the Authority's long-standing objective of an extra 600 police officers on the beat has now led to an extra 489 officers, with a net increase of 80 officers in 2008/09.</p> <p>A major restructuring exercise (Structures and Ratios) provides the basis for savings in non-operational areas such as communications, finance and personnel, with of £0.109m in 2008/09 and a further £1.091m planned for 2009/10.</p> <p>The policing plan target-setting process is run in parallel with the budget process and the financial impact of targets is incorporated within the budget. Improvement targets were matched with development funding, enabling further resources to be put into priority areas such as anti-social behaviour and gun crime. The Authority's planning arrangements have been recognised as good practice by the Association of Police Authorities.</p> <p>A commitment to engagement is demonstrated in the re-designation of posts to support this work. A wide range of engagement mechanisms are used and venues, times and dates of activities are equality impact assessed to ensure accessibility and a positive impact for minority groups. A feature of events is seeking views of how the Authority should prioritise its spending ('speed dating'), with results used in the development of the Local Policing Plan.</p> <p>The Authority's recent track record shows it manages its spending well. At the same time, service performance has improved with (eg) overall crime reducing by 7% in 2008/09. This demonstrates that performance has not been compromised by the financial controls in operation.</p> <p>Financial skills are utilised and developed effectively with the Resources and Strategy Committee providing a forum for members to challenge the performance of the Force. It also acts as the Audit Committee and reviews both internal and external audit including updates on the implementation of audit recommendations and progress against action plans.</p> <p>The Force finance team includes a number of qualified accountants. Proposals being implemented as part of the Structures and Ratios Project will further strengthen financial management within the Force.</p>	

<p>KLOE 1.2 (understanding costs and achieving efficiencies)</p> <p>Score</p> <p>VFM criterion met</p>	<p>3</p> <p>Yes</p>
<p>Key findings and conclusions</p> <p>The Force uses comparative information on costs and performance to review and improve performance. For example, benchmarking and unit cost data were used to review and re-organise its FME provision. A 'hybrid' model of employed nurse practitioners in the main custody centres with contracted doctors in other locations has the potential to reduce costs by over £200,000.</p> <p>The Structures and Ratios Project identified savings in staff costs from centralising business support services for Personnel, Finance and Audit and Inspection. Savings are estimated to be in excess of £1.2 million per annum once fully implemented. The Force also has examples of 'invest to save', such as additional resources (£10,000) in the Forensics submissions department delivering £135,000 in annual savings.</p> <p>Areas of overspending or weak performance are highlighted to the Authority and action is taken to address them. For example overspending on the Forensics budget led to a full review. This resulted in new quality control procedures and led to a decrease in expenditure on Forensics without impacting performance.</p> <p>Where the need for additional funds is identified, the Force uses a standard format to assess and prioritise spending bids. Information required includes the expected increase in performance from the investment and the impact on local and national performance indicators.</p> <p>The Force has reviewed its replacement vehicle policy and, through the application of more rigorous processes for new vehicle requests, has managed to maintain a constant annual budgeted cost from 2009/10 until 2011/12.</p> <p>The Force is on target to meet its efficiency targets with no loss of overall performance.</p>	

Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 1.3 (financial reporting)</p> <p>Score</p> <p>VFM criterion met</p>	<p>3</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>Financial monitoring information is in place that is effective, as demonstrated by the Authority's track record. There is scope to develop this further by better extrapolating profiled budget data to forecast the impact on the projected year end outturn in all reports. Budget forecasts could also be subject to risk or sensitivity analysis.</p> <p>Arrangements for monitoring performance are effective. Although there is no single report that integrates financial and activity data, it is clear from that this link is made by the Authority. For example, the policing plan target-setting process runs in parallel with the budget process and the financial impact of targets is incorporated within the budget.</p> <p>The annual accounts meet statutory requirements, have been well-prepared and meet SoRP requirements. They are supported by good working papers. Some errors were identified from our audit work but none of these affected our 2008/09 opinion.</p> <p>Merseyside was the first police force to receive the Carbon Trust Standard by demonstrating reductions in carbon dioxide emissions of 2.5% year on year as well as having high standards in energy management.</p> <p>All Authority reports are assessed for any equality and diversity impact. All material is offered in other formats and languages as well as being subject to plain English scrutiny. The web site has built-in language options to ensure all communities have access to the Authority's information. The web site also has accessibility features such being able to alter text size and use access keys to assist users with disabilities. During 2008/09, eight translations of the Policing Plan summary were requested and delivered. A Polish translation was copied and printed in a Polish newspaper and distributed at a Polish event. An Arabic translation was distributed via a mosque. There were also requests for large print and Braille versions.</p>	

Governing the business

Theme score	3
Key findings and conclusions	
<p>There is a good understanding of Merseyside’s diverse communities including engagement with local groups and partners to provide services that meet the needs of the general community and disadvantaged groups. The Force works in collaboration with partners and has achieved significant savings and better outcomes.</p> <p>The Force was a pioneer in the use of QUEST and also operates a 'COUNT' system. It has an up-to-date data quality plan and audit work checks compliance. It is 66% compliant with the MOPI standards (sixth highest nationally). Evidence from the Force’s audits confirms that data quality policies are effective in practice.</p> <p>The Force has utilised IT-driven solutions to improve value for money in service redesign. All Force laptops and other devices are encrypted or similarly protected.</p> <p>Expenses and allowances claimed by senior officers and members are subject to effective scrutiny. A Partnership Governance Framework has been produced reflecting best practice from the Audit Commission’s national report.</p> <p>There is good evidence of outcomes on risk management including regular risk awareness training for members with a high level of attendance. The DCC Governance Group receives a performance report that identifies areas performing less well; it assesses risks associated with such performance on services and users.</p> <p>Counter-fraud arrangements are in place with examples of successful outcomes including identifying benefit fraud. There are well-established systems of internal control covering and a recent HMIC report highlighted business continuity as a key strength for the Force with well-embedded, rigorous systems in place and clear links to risk management processes.</p>	

Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 2.1 (commissioning and procurement)</p> <p>Score</p> <p>VFM criterion met</p>	<p>3</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>The Authority and Force demonstrate a good level of engagement and understanding of its diverse communities in identifying priorities. There is a clear link between the Procurement Strategy and objectives within the Policing Plan. The Plan clearly spells out strategic priorities and how local community views were sought and used.</p> <p>The Force and Authority engage with local groups and local partners to provide services to meet the needs of the general community and disadvantaged groups, including the Freedom Programme (for abused women) and drug intervention programmes</p> <p>The Force works in collaboration with local, regional and national partners and has achieved significant savings, for example, joint forensic services contracts and increased collaborative enforcement activity in roads policing.</p> <p>Service review meetings are held to ensure contracts are providing value for money, meeting evolving customer requirement and identifying any pertinent issues. Users are surveyed on a regular basis through the 'Your Voice Counts' initiative and Force satisfaction surveys.</p> <p>The Force has utilised IT-driven solutions to improve value for money and is currently trialling the use of Blackberry technology to make efficiency savings, by speeding up the process to input Stop and Search information.</p> <p>Tender documentation requires potential contractors and suppliers to show their understanding of diversity, health and safety, and environmental issues. This includes a requirement to supply company policies on each topic.</p> <p>The Authority monitors and scrutinises the way its vision and policing outcomes are achieved. For example, it supported the expansion of Safer Schools Officers as part of its local policing pledge. Monitoring shows that performance on anti-social behaviour has improved significantly in the areas around schools where officers are based.</p> <p>Merseyside was a pioneer in the use of QUEST and this was used to re-design the call-handling service, leading to significant improvements.</p>	

Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 2.2 (data quality and use of information)</p> <p>Score</p> <p>VFM criterion met</p>	<p>3</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>The Force operates a 'COUNT' system (collect once, use numerous times). Data from each operational IT system is automatically written to the data warehouse with management information reports and systems being based on this data.</p> <p>The Force has an up-to-date data quality plan showing responsibilities of data users. There is a programme of audit and inspection work to ensure staff are complying with this. The data quality plan provides the framework to co-ordinate, implement and monitor the activity required to achieve full MOPI compliance. The Force is currently 66% compliant with the MOPI standards (sixth highest nationally) and is on track to achieve full compliance by 2010.</p> <p>All Force laptops are encrypted to guard against accidental loss. There is also protection over hand held devices, USB drives and Blackberries.</p> <p>Evidence from the results of audits undertaken by the Force confirm that data quality policies are effective in practice, for example, monthly NSIR and quarterly NCRS audits are undertaken and regularly show accuracy/compliance levels in excess of 90 per cent.</p>	
<p>KLOE 2.3 (good governance)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>The Authority provides training to members through induction and on ongoing basis to enable members to understand their role and responsibilities. Training covers (eg) the Code of Conduct and ethics and standards.</p> <p>The Authority demonstrates a clear purpose and vision with the Local Policing Plan acting as the primary strategic document to drive its efforts and set its priorities. The leadership of the Authority and Force maintain focus on delivering strategic priorities. Members monitor and scrutinise the Chief Constable's Blueprint and regularly participate in the Chief's Talkback events.</p> <p>Ethics and Standards are overseen by the Standards Committee and this has been extended to nine Members (including three lay members). It now meets on a more structured quarterly basis. The Authority has received few allegations of breaches of the Code of Conduct.</p> <p>The Authority and Force ensure expenses and allowances claimed by senior officers and Authority members are appropriate and subject to effective scrutiny.</p> <p>A Partnership Governance Framework has been produced. This reflects best practice from the Audit Commission's national report 'Governing Partnerships – Bridging the Accountability Gap', and includes a Partnership Assessment Framework and Partnership Risk Assessment and Management Template. The Authority and Force work together to monitor partnership working.</p>	

Appendix 1 – Use of resources key findings and conclusions

The Community Partnership Committee is attended by 10 members and meets every six weeks. It receives CDRP minutes and assesses partnership work in each BCU area.

There are a number of areas where the Authority can make improvements to help achieve a level 3 score. The records of attendance by members on each training courses could be improved. An exercise to produce a complete database of all the partnerships needs to be completed and then used to ensure appropriate governance documents are in place. Although the Authority has set up Memorandum of Understanding with individual voluntary and community organisations it has not yet considered signing a locality-wide agreement governing its relations with voluntary and community organisations. Registers of members' interests and gifts and hospitality are maintained but these could be made available through the website. This would show that the Authority upholds the principles of public life, in particular openness, honesty and integrity.

KLOE 2.4 (risk management and internal control)

Score

3

VFM criterion met

Yes

Key findings and conclusions

There is regular risk awareness training for members with a high level of attendance. There is also a risk-based approach to determining the level of balances, reserves and provisions.

The DCC Governance Group receives a performance/organisational report which identifies performance areas that are more than 5% worse than target. This includes information on the risks associated with the current levels of performance and the impact on services and service users.

Risk management is also a key element of project management with all projects required to keep an on-going register of risks and issues likely to affect the project plan or objectives. The Authority's involvement in the collaborative agreement the North West Motorway Police Group provides an example of achieving improved outcomes through effective partnership risk management.

There are counter-fraud arrangements in place with examples of (eg) successfully identifying benefit fraud and clear requirements for approved contractors.

There are well-established systems of internal control. A recent HMIC report highlights business continuity as a key strength for the Force with well-embedded, rigorous systems in place and clear links to risk management processes.

The Resource and Strategy Committee acts as the audit committee and monitors progress against significant internal control concerns reported by internal and external audit.

Managing resources

Theme score	3
Key findings and conclusions	
<p>The Force has appropriate workforce policies and procedures in place, with a structured training programme linked to future developmental needs of the Force. It has good arrangements for student learning and won the Queens Award for Innovation for work on producing student notes in an audio MP3 format.</p> <p>Strategies are in place to address the negative findings of an external staff survey in 2007 which identified high levels of stress. The Structures and Ratios Project together with Blueprint 2012 provide evidence of planned workforce modernisation, linked to Authority and Force priorities.</p> <p>The Force is exceeding its targets for female and BME recruits and levels of representation are particularly strong at senior management levels within the Force.</p>	
KLOE 3.3 (workforce planning)	
Score	3
VFM criterion met	Yes
Key findings and conclusions	
<p>The Force has appropriate policies and procedures in place together with a structured training programme linked to future developmental needs of the Force. Merseyside was the first force to be meet QA criteria at Level 3 for student learning and it won the Queens Award for Innovation for work on producing student notes in an audio MP3 format. This will benefit all students but specifically those with learning difficulties.</p> <p>The Force uses benchmarking data to identify areas where back-office savings can be made through a planned organisational restructure. This shows that the Force understands its costs and uses the results to make efficiencies. For example, a successful pilot showed that officers could self record crime with no loss in data quality providing an opportunity to release up to 35 police officers to the frontline.</p> <p>The Force undertakes annual surveys of compliance with health and safety legislation/ good practice. Performance has been improving year-on-year and in the most recent survey (2008), compliance was between 89% and 98%.</p> <p>Strategies are in place to address the negative findings of an external staff survey in 2007 which identified high levels of stress. So far, 16 of the 18 recommendations have been implemented with two outstanding items on target for implementation in 2009. The Police Authority has approved funding for well-being initiatives and this will provide executive stress management training, health promotion road shows and an on-line personal health management system. The survey will be re-run in October 2009 to monitor and assess progress.</p>	

Appendix 1 – Use of resources key findings and conclusions

The on-line personal health management system has improved the 'health and well-being index'. Feedback from the Police Federation has been excellent and the Force has been praised nationally for improving work-life balance. Merseyside was one of only seven forces praised at the Police Federation Annual Conference in May 2009.

Sickness levels have fallen in recent years but are above average. Police officer sickness of 3.8% in 2008/09 was above the average of 3.6%. Police staff sickness of 4.5% is also above the average of 4.3%.

The Structures and Ratios Project and Blueprint 2012 provide evidence of planned workforce modernisation, linked to priorities. The Force has adopted a resource allocation model and runs this every year to assist in the allocation of resources between BCUs. The ongoing uncertainty on the funding of PCSOs is reflected within the medium term financial strategy. A detailed evaluation of the benefits of PCSOs was undertaken and considered as part of the overall financial strategy.

The Force operates a rewards and recognition policy to acknowledge performance that is outstanding, demanding or unpleasant and has a well-established programme of Chief Officer and other commendations. Proposals to adopt talent management were approved in February 2009.

There is appropriate consultation with staff union representatives who have expressed satisfaction with the level of progress on the implementation proposals for the audit, inspection and performance elements of the Structures and Ratios Project.

More than 67 percent of employees are police officers: the Force has more officers than the national average of 65 percent confirming the Authority's commitment to increase police officer numbers.

The Force is exceeding its targets for female and BME recruits and levels of representation are particularly strong at senior management levels within the Force, with two female Assistant Chief Constables providing positive role models for minority officers.

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, 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.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

© Audit Commission 2009

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk
