

Annual governance report

Merseyside Police Authority

Audit 2010/11



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Key messages

This report summarises the findings from my 2010/11 audit which is almost complete. It includes the messages arising from my audit of your financial statements and the results of my assessment of your arrangements to secure value for money in your use of resources.

Audit opinion and financial statements

I intend to issue an unqualified opinion on the Authority's annual accounts for 2010/11. The Authority's draft accounts were of a good standard and the first time application of International Financial Reporting standards (IFRS) was addressed effectively.

Some amendments were made to the accounts following my audit but none were significant. I also identified some areas where controls can be strengthened.

Value for money

I intend to issue an unqualified conclusion stating the Authority has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In recognising the challenge of reduced Government funding, a significant change programme is being implemented. The Strategic Options Project and the Excellent Policing Programme provide the basis of savings over the next four years.

Savings are guided by policing principles with an impact assessment for each project. This sets out its likely impact, including the effect on front-line policing.

Before I complete my audit

I confirm to you

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

Independence

I confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including Ethical Standard 1 (revised) - Integrity, Objectivity and Independence. I also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2010/11.

I ask you to confirm to me

I ask the Finance and Audit Committee to:

- take note of the adjustments to the financial statements set out in this report (page 5);
 - endorse the letter of representation, provided in this report, before I issue my opinion and conclusion (appendix 2); and
 - agree your response to the action plan (appendix 3).
-

Financial statements

The Authority's financial statements and annual governance statement are important means for the Authority to account for its stewardship of public funds. As Authority members you have final responsibility for these statements. It is important you consider my findings before you adopt the financial statements and the annual governance statement.

Financial statements

The financial statements were prepared to a good standard and contained only minor errors. I intend to issue an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report.

Some errors were corrected as a result of my audit and these are set out below. These largely related to adjustments within supporting notes and did not affect the main financial statements. The adjustments are:

- Within the Pension Fund Account, ordinary commutation payments are understated by £0.113m, with transfer values understated by a similar sum. Total benefits payable are correct.
- Notes to the Pension Fund (notes 7.1 onwards) have been amended to meet the full requirements of CIPFA's Code. The old and new police pension schemes are now shown separately. There are also additional disclosures on estimated contributions in the next year and a note of actuarial gains and losses has been added to note 7.1.
- The contribution to the PCS&TO reserve (note 2.5) is incorrectly shown as a 'transfer out' when it is a 'transfer in'. The total reserve is however, correct.

Annual Governance Statement

The Authority's Annual Governance Statement meets CIPFA's requirements. The disclosures within it are consistent with the information we are aware of from our audit of the financial statements and other work.

Financial statements

Audit Risks

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Key audit risk and our findings

Key audit risk	Finding
<p>1. IFRS</p> <p>The Authority's 2010/11 accounts will be based on International Financial Reporting Standards (IFRS). This will involve significant changes to the financial statements and new requirements in areas such as leave accruals and leasing.</p>	<p>We carried out early work on the Authority's restated 2009/10 opening balances. We tested compliance with IFRS requirements including risk areas such as leasing and leave accruals. Our work shows the Authority's accounts comply with the new requirements and effectively address key areas.</p>
<p>2. Accruals</p> <p>We identified problems with some accruals in our 2009/10 audit that led to amendments to the accounts.</p>	<p>We have tested 2010/11 accruals and have confirmed these are accurate.</p>

Financial statements

Weaknesses in internal control

My work has identified some areas where controls can be strengthened. These cover title deeds and ICT controls. These weaknesses are only those I identified during the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

Internal control issues and our findings

Description of weakness	Potential effect	Management action
<p>1. Title deeds for land and buildings</p> <p>In testing the Authority's land and buildings to the Land Registry, some assets are not recorded as owned by Merseyside Police Authority.</p> <p>Under the Local Government Act 1985, relevant property was transferred to the Authority but Land Registry records were not updated.</p>	<p>Although land and buildings are obviously the Authority's assets, Land Registry records should be revised to record the proper legal title for all assets. This will avoid disputes in the future.</p>	<p>We recommend that Land Registry records should be updated to record the proper legal title for all assets.</p>
<p>2. ICT Password Control</p> <p>Network password controls need to improve. Current password requirements are not complex enough compared with best practice. For example they need only be six characters long, no special characters are allowed and passwords do not expire. In addition the same password can be used for financial systems.</p> <p>As a minimum, password controls need to improve for financial systems. This should involve introducing requirements for stronger</p>	<p>Weaker password controls can increase the risk of an individual gaining unauthorised access to sensitive data, starting transactions and causing deliberate destruction or manipulation of data.</p>	<p>Following an ICT security review, users were recommended to select a password in the more complex form and then use this to access the network and applications. At that time, network security settings were changed so new passwords must conform to the more complex form. However, some users (with weaker passwords) did not change these.</p> <p>Best practice requires users to change passwords regularly. However, ICT management believe this may weaken IT security as people won't remember a constantly changing complex password and will either write it down, or use a simple method to create new passwords.</p>

Description of weakness	Potential effect	Management action
passwords, separate passwords and forced password changes.		The Force however, accepts the need for improved password controls for financial systems.
<p>3. ICT back-up restorations</p> <p>No back-ups have been restored for financial systems during the year. This shows there have been no problems but it is good practice to carry out a full restore test from back-ups at least yearly.</p>	<p>Back-ups are the most effective method of ensuring no data is lost. However, they need testing to ensure that, when required, data can be recovered successfully.</p>	<p>We recommend a full restore test from back-ups is completed yearly for financial systems.</p>

Recommendations

Recommendation
<p>R1 Update Land Registry records to record the proper legal title for all assets.</p> <p>R2 Strengthen controls over passwords for financial systems including:</p> <ul style="list-style-type: none"> ■ passwords to be a minimum of eight characters in length ■ requiring a mix of numerical and alphabetical characters, upper/lower case and special characters to enforce password complexity rules; ■ changed passwords should not be similar to the username or previous passwords; ■ requiring a separate password to be used to gain access to financial systems; and ■ establishing an automatic prompt for a forced password change after a maximum of 30 - 60 days. <p>R3 Restore financial systems from back-ups at least yearly.</p>

Financial statements

Quality of your financial statements

I consider your accounting practices, accounting policies, accounting estimates and financial statements disclosures. These are no issues I want to raise with you.

I do however wish to record the good work by the Force's Finance department in managing the introduction of International Financial Reporting Standards (IFRS). These form the basis of the Authority's financial statements and have involved more complex financial reporting requirements in 2010/11. The Authority has successfully addressed these requirements in implementing the new reporting standards. This has involved significant work in areas such as reviewing leases and identifying and quantifying leave accruals.

Work began early with a draft set of restated 2009/10 annual accounts in December 2010. We audited these early and this provided assurance that major issues had been addressed. Supporting notes were prepared in early 2011 and these formed the basis of this year's annual accounts. Some authorities have identified problems that led to delays in preparing the 2010/11 accounts but no such problems were encountered by the Authority. The accounts were available for audit before 30 June, in line with the agreed timetable.

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. I am attaching a draft letter in appendix 2.

Value for money

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

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below. I intend to issue an unqualified conclusion stating the Authority has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Value for money criteria and our findings

Criterion	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>Reduced Government funding means all police authorities face a significant financial challenge. For Merseyside, this will involve a £61.4 million budget reduction over the next four years; 16% of gross expenditure.</p> <p>In recognising this challenge, the Authority and Force are implementing a significant change programme. The Strategic Options Project involved identifying savings options and four waves of savings have been approved. The Excellent Policing Programme will provide the basis of savings in years 2 and 3. The Force and Authority are working to develop potential savings in year 4.</p> <p>The Force and Authority have been committed to efficiency savings over recent years with several successful examples such as the Structures and Ratios and the custody medical service.</p> <p>The latest medium-term financial strategy sets the basis of savings over future years and outlines risks such as interest rates, inflation, partnership funding and likely changes in governance arrangements.</p>

Criterion

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Findings

The Strategic Options Project and the Excellent Policing Programme are reviewing all activity and are guided by “policing principles”. These include definitions of frontline, critical support and back office to prioritise the extent and timing of savings. An impact assessment is completed for each project setting out its likely impact of recommendations, including the effect on frontline policing.

The prioritisation involves both senior officers and members. The Change Board considers strategic options and assesses business cases before options are followed. Once agreed, proposals are presented to the Finance and Audit Committee before approval by the full Authority.

The Change Management Board also manages progress on individual projects using a RAG status analysis. Fortnightly status reports highlight concerns identified by Implementation Managers

The Authority has a good track record of achieving efficiencies with the latest efficiency plan showing 109% of the plan achieved over three years.

Appendix 1 – Draft audit report

Independent Auditor's Report to the Members of Merseyside Police Authority Opinion on the Authority and Pension Fund accounting statements

I have audited the accounting statements and the police pension fund accounting statements of Merseyside Police Authority for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the 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. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Merseyside 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 Authority's Statement of Accounts, including the police pension fund accounting statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's 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 accounting statements sufficient to give reasonable assurance that the accounting 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 Authority and the Pension Fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Merseyside Police Authority's affairs as at 31 March 2011 and of its income and expenditure 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 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

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

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on Authority's 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 to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

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. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Merseyside Police Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the accounts, including the police pension fund accounting statements, of Merseyside Police Authority in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Julian Farmer, Officer of the Audit Commission
2nd Floor, Aspinall House
Aspinall Close
Middlebrook, Horwich
Bolton, BL6 6QQ

23 September 2011

Appendix 2 – Letter of representation

To: Julian Farmer, District Auditor
Audit Commission
2nd Floor, Aspinall House
Aspinall Close
Middlebrook
Horwich
Bolton
BL6 6QQ

Merseyside Police Authority- Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2011. All representations cover the Authority's accounts and Pension Fund accounts included within the financial statements.

Compliance with the statutory authorities

I have fulfilled 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 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

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

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 that 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.

Specific representations

I confirm that all land and buildings included within the balance of Property, Plant and Equipment are owned by Merseyside Police Authority.

I confirm that there are no significant outstanding obligations on the cancelled Wirral Command Centre project.

Related party transactions

I confirm that I have disclosed the identity of Merseyside Police 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 requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of Merseyside Police Authority

I confirm that the this letter has been discussed and endorsed by the Finance and Audit Committee, on behalf of Merseyside Police Authority, on 22 September 2011

Signed.....

Paul Johnson
Chief Executive and Treasurer

22 September 2011

Appendix 3 – Action plan

Recommendations

Recommendation 1

Update Land Registry records to record the proper legal title for all assets.

Responsibility	Chief Executive/Treasurer
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Priority	Medium
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Date	31 March 2012
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Comments

Recommendation 2

Strengthen controls over passwords for financial systems including:

- passwords to be a minimum of eight characters in length
- requiring a mix of numerical and alphabetical characters, upper/lower case and special characters to enforce password complexity rules
- changed passwords should not be similar to the username or previous passwords;
- requiring a separate password to be used to gain access to financial systems ; and
- establishing an automatic prompt for a forced password change after a maximum of 30 - 60 days.

Responsibility	Geoff Broadhead
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Priority	High
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Date	30 October 2011
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Comments

Recommendation 3

Restore financial systems from back-ups at least yearly.

Responsibility	Geoff Broadhead
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Priority	High
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Date	30 October 2011
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Comments	
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Appendix 4 – Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical 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’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

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

