

Annual Governance Report

DEVON AND CORNWALL POLICE AUTHORITY

Audit 2007/08

Date

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Contents

Summary	3
Financial statements and Annual Governance Statement	4
Value for money	8
Formal audit powers	9
Independence	10
Appendix 1 – Draft Letter of Representation	12
Appendix 2 – Errors in the Statement of Accounts	15
Appendix 3 – Draft Audit Opinion	16
Appendix 4 – Action Plan	20

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.

Summary

Purpose

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

Financial statements

- 3 During the audit we identified the need to make one material and a number of minor amendments to the accounts. These amendments have been agreed with officers and the financial statements have been adjusted. More detail on the issues we identified are shown later in this report at Appendix 2.
- 4 No amendment to the financial statements is proposed by management in respect of the underestimation of pension fund assets by the actuary. The underestimate of £329,000 is not material and the pension fund valuation is not something over which the Authority has control.
- 5 We anticipate issuing an unqualified opinion on the financial statements.

Value for Money

- 6 The Authority has arrangements in place for securing economy, efficiency and effectiveness in its use of resources.
- 7 We propose issuing an unqualified conclusion on the Authority's value for money arrangements.

Formal audit powers

- 8 We have not and do not plan to exercise our formal audit powers.

Next steps

- 9 We ask the Corporate Governance Committee to:
 - consider the matters raised in the report and agree to the adjustments made;
 - approve the representation letter on behalf of the Police Authority before we issue our opinion, conclusion and certificate; and
 - agree the proposed action plan at Appendix 4.
-

Financial statements and Annual Governance Statement

- 10 The Police Authority’s financial statements and Annual Governance Statement are important means by which the Authority accounts for its stewardship of public funds. As Police Authority members you have final responsibility for the financial statements and Annual Governance Statement. It is therefore important that you consider our findings before you adopt the financial statements and the Annual Governance Statement.
- 11 In planning our audit we identified specific risks and areas of judgement that we have focused on during our audit. We report to you the findings of our work in those areas.
- 12 In addition, auditing standards require us to report to you:
- the draft representation letter which we are asking management and you to sign;
 - our views about the Police Authority’s accounting practices and financial reporting;
 - errors in the financial statements;
 - any expected modification to our report;
 - weaknesses in internal control; and
 - certain other matters.

Key areas of judgement and audit risk

- 13 In planning our audit we identified key areas of judgement and audit risk that we have considered as part of our audit. Our findings are set out in Table 1.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
Significant changes in the 2007-08 Statement of Recommended Practice (SORP) affecting, inter alia, the revaluation reserve, financial instruments, capital finance, and FRS17 pension fund requirements.	Our audit testing confirmed that these changes had been considered in the preparation of the Authority’s accounts. Following amendments made to the financial statements (one material and a number of minor adjustments) arising from our audit work they are now materially correct.
The recognition and mitigation of corporate risks is a developing area.	Our review of the current risk arrangements as part of the PURE/corporate governance work confirmed that they are appropriate and

Financial statements and Annual Governance Statement

Issue or risk	Finding
	satisfactory.
The introduction of an effective fixed asset register for vehicles, plant and equipment.	Our audit testing confirmed that an effective register has been introduced for vehicles. The asset register for plant and equipment is planned for 2008-09.
The transfer of investment funds away from Morley.	Our substantive testing confirmed that the stated investments are materially correct.

Recommendation

R1 Ensure that the planned extension to the fixed asset register to include plant and equipment is undertaken during 2008-09.

Draft representation letter

14 Before we issue our audit opinion, auditing standards require us to obtain from you and management, written representations that:

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

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

15 Appendix 1 contains the draft of the letter of representation we seek from you.

Accounting policies and financial reporting

16 We consider the qualitative aspects of your financial reporting. Table 2 contains the issues we want to raise with you.

Table 2 Accounting practice and financial reporting

Issue or risk	Finding
The effect of a change in accounting policy not complying with recommended practice.	We identified that a change in the vehicle depreciation policy had been incorrectly treated as a change in accounting practice rather than a change in estimation technique. This had been applied retrospectively to all vehicles and a revaluation figure created in the accounts. Management agreed to amend the accounts to show the change in estimation technique from the current year only.

Recommendation

R2

- Ensure that all proposed changes in accounting policy comply fully with the statement of recommended practice.

Financial statements and Annual Governance Statement

Errors in the financial statements

- 17 We are required to report to you, as those charged with governance, audit matters of governance that arise from the audit of the financial statements. We identified one material error and small number of non trivial errors in the financial statements and reported these to management (see Appendix 2 for details).
- 18 Your officers have recognised the need and agreed to adjust the financial statements to correct these errors.

The audit report

- 19 We plan to issue an unmodified report including an unqualified opinion on the financial statements. Appendix 3 contains a copy of our draft audit opinion.

Material weaknesses in internal control

- 20 We have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.
- 21 We have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made. We have reported only those matters which have come to our attention because of the audit procedures we have performed.

Other matters

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

Value for money

- 23 We are required to conclude whether the Authority put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. We assess your arrangements against twelve criteria specified by the Commission. Our conclusion is informed by our work on Use of Resources, a scored judgement reported to the Audit Commission.
- 24 We have assessed the arrangements of the Authority as adequate in all twelve areas and we therefore propose to issue an unqualified conclusion.

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Formal audit powers

25 We have:

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

26 We have not and do not propose to exercise these powers.

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Independence

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

Relationships with the Police Authority

- 30 We have identified no relationships that might affect objectivity and independence.

Audit fees

- 31 We reported our fee proposals as part of the Audit Plan for 2007/08. The table below reports the outturn fee against that plan.

Table 3 **Audit fees**

	Plan 2007/08	Actual 2007/08
Financial statements and Annual Governance Statement	59,445	59,445
Use of resources (PURE assessment, value for money conclusion)	20,316	20,316
Whole of Government Accounts	2,597	2,597
National Fraud Initiative	350	350
Total Audit Fees	82,708	82,708

- 32 The analysis above shows that we contained our audit fee within the totals you have already agreed.

Independence

33 Under the Audit Commission's advice and assistance power it may provide non-audit services to the Authority. We have not provided any non-audit services to the Authority during 2007/08.

Our arrangements to ensure independence and objectivity

34 We have comprehensive procedures to ensure independence and objectivity. These are outlined in Table 4.

Table 4 Arrangements to ensure independence and objectivity

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

Appendix 1 – Draft Letter of Representation

Alun Williams
District Auditor
3 – 6 Blenheim Court
Lustleigh Close
Matford Business Park
Exeter
EX2 8PW.

Dear Mr Williams,

Financial Statements for the year ended 31 March 2008

This letter of representation is provided in connection with your audit of the financial statements of Devon & Cornwall Police Authority for the year ended 31 March 2008. It is intended to support your opinion as to whether the financial statements present fairly the financial position of the Authority.

I acknowledge my responsibility under the relevant statutory authorities for preparing financial statements that present fairly the financial position of Devon and Cornwall Police Authority and for making accurate representations to you.

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of the Devon and Cornwall Police Authority and Force, that the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2008 are accurate.

The Financial Statements were approved by the Police Authority on 27 June 2008. Material entries relating to the liabilities for police pensions have been adjusted and the corrected accounts have been approved under delegated arrangements by the Chairman of the Authority and the Chairman of Resources Committee.

Accounting Policies

The financial statements are presented fairly in all material respects and in accordance with applicable accounting standards. They are in accordance with the books and records showing the financial position of the Authority at 31st March 2008 and its income and expenditure for the year ending 31st March 2008. I confirm the Authority is not part of a group of entities for accounting purposes.

Supporting Records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Authority have been properly reflected and recorded in the accounting records. All other records and related information which might affect the fair presentation of, or necessary disclosure in, the Statement of Accounts, including minutes of the Authority and relevant management meetings, have been made available to you and no such information has been withheld.

Assets

The Authority has satisfactory title to all assets and there are no liens or encumbrances on the Authority's assets. No assets have been pledged as collateral.

Related party transactions

I confirm that to the best of my knowledge and belief the information provided regarding the identification of related parties is complete and accurate.

Employee Benefits

I confirm that I have made you aware of all employee benefit schemes in which the employees of the Authority participate.

Contractual Arrangements / Agreements

All contractual arrangements entered into by the Police Authority with third parties have been properly reflected in the accounting records or, where material (or potentially material) to the Statement of Accounts, have been disclosed to you. At the date of the financial statements there were no contingent liabilities, material commitments or contractual issues, other than those already disclosed in the financial statements.

Law, regulations and codes of practice

I am not aware of any instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Authority. There have been no communications from regulatory agencies concerning non-compliance with or deficiencies on financial reporting practices that could have a material effect on the financial statements.

Misstatements

I confirm that to the best of my knowledge and belief any uncorrected misstatements are immaterial individually and in aggregate.

Fraud and Irregularities

I understand that the term "fraud" includes misstatements resulting from fraudulent financial reporting and misstatement resulting from misappropriations of assets. I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect error.

I confirm that to the best of my knowledge and belief there have been no instances or allegations of fraud or suspected fraud affecting the Police Authority involving:

- management and those involved with governance;
- employees who have a significant role in internal controls;
- other employees that could have a material effect on the financial statements;

I have disclosed to you the results of the Police Authority's review of the risk of fraud or corruption.

Reasonableness of Assumptions

I have assessed the assumptions with regard to the valuation of balances and fair value disclosures I can confirm that they are reasonable.

Events arising after 31st March 2008

On 31 May 2008 the Home Office revised the regulations with regard to commutation of pension payments for retiring police officers. This change was back dated to 1 October 2007. The effect of this post balance sheet event has been reflected in both the Income and Expenditure Account for 2007/08 and the Balance Sheet as at 31 March 2008. As far as I am aware there are no other significant matters that have arisen that would require restatement of the corresponding figures.

Other matters

The Constabulary Interim Director of Finance and Resources was suspended on 2 July 2008. It is my view that this event has no material impact on the financial statements of the Police Authority as at 31 March 2008.

Signed on behalf of Devon and Cornwall Police Authority
Name John Glasby
Position Treasurer

Appendix 2 – Errors in the Statement of Accounts

Material errors

The liability in respect of retired officers' commutation rights of £29.2m was not included as a past service cost.

Non trivial errors

The impairment figure of £2.631m in note 16 was included within the depreciation figure. It should have been separately disclosed.

The revaluation of £2.155m in respect of the change in policy on vehicle depreciation was reversed out of the capital adjustment account.

Expenditure of £1.301m on the new helicopter was shown as operational rather than non operational.

The value of the accrued interest on investments £0.423m was shown as a debtor rather than part of the carrying value of the investment.

A number of adjustments were required to the cash flow statement in order to make it compatible with the rest of the financial statements.

Appendix 3 – Draft Audit Opinion

Independent auditor's report to the Members of Devon and Cornwall Police Authority

Opinion on the financial statements

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

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

Respective responsibilities of the Treasurer and auditor

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

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

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

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

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by

Appendix 3 – Draft Audit Opinion

CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

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

Opinion

In my opinion:

- The accounting statements and related notes present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended; and
- The police pension fund accounting statements present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial transactions of the police pension fund during the year ended 31 March 2008 and the amount and disposition of the fund's assets

and liabilities as at 31 March 2008, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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

Authority's Responsibilities

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

Auditor's Responsibilities

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

Conclusion

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

Auditor's responsibilities

I have a duty under the Audit Commission Act 1998 to consider whether, in the public interest, to report on any matter that comes to my attention in the course of the audit in order for it to be considered by the body concerned or brought to the attention of the public. There are none.

Under section 11 of the Audit Commission Act 1998, I may designate any audit recommendation as one that requires the Authority to consider it at a public meeting held within one month of the issue of the relevant report and to decide what action to take in response. There are none.

Certificate

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

Appendix 3 – Draft Audit Opinion

Alun Williams
District Auditor

Audit Commission, 3-6 Blenheim Court, Lustleigh Close, Matford Business Park,
Exeter EX2 8PW

[Date]

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Appendix 4 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<Recommendation Title>					
5	R1 Ensure that the planned extension to the fixed asset register to include plant and equipment is undertaken during 2008-09.	2				
6	R2 Ensure that all proposed changes in accounting policy comply fully with the statement of recommended practice.	3				

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