

Review of Financial Statements 2004/05

Devon and Cornwall Police Authority

Audit 2004-2005

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

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

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

www.audit-commission.gov.uk

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Summary report

Introduction

- 1 This report summarises the key issues arising from our audit of the Police Authority's (the Authority) statement of accounts for the year-ended 31 March 2005.

Background

- 2 The prime objective of our opinion work is to provide the following:
 - an independent assessment of the Authority's accounts, to ensure that they present fairly its financial position and operational results and are free from material misstatement;
 - an assessment of whether the statement of accounts has been prepared in accordance with appropriate regulations and proper professional practices; and
 - an assessment as to whether the statement of responsibilities reflects the Authority's compliance with legislation.

Audit approach

- 3 Our audit approach is designed to enable us to give an opinion on the Authority's accounts whilst minimising the cost of the audit. This is achieved through the 'Managed Audit' approach.
- 4 This approach consists of five key elements:
 - establishing joint working arrangements with your staff. This includes liaising with you over closedown procedures and agreeing working paper requirements;
 - an initial risk assessment focused on the control environment;
 - an assessment of the operation of your core processes, in particular your main accounting system, budgetary control system and closedown procedures;
 - a detailed risk assessment including specific testing to address high and medium-risk areas; and
 - an overall review of your financial statements and detailed testing on individual final accounts balances.

Main conclusions

- 5 Our audit was again facilitated by good co-operation from the Authority's finance staff. The working papers produced to support the accounts were of a sound quality.
- 6 The Statement of Accounts presented for audit did not reflect the full revaluation of the police property portfolio (this was highlighted in note 1 to the Balance Sheet). This exercise was completed by the external valuer during the audit and material changes were identified. The Statement of Accounts has now been amended and was presented to the Resources Committee for approval on 28 September 2005.
- 7 We issued an unqualified Audit Opinion on the 2004/05 Financial Statements on 28 October 2005.
- 8 The main issues which arose during our review of the statements are set out in the report below.

Detailed report

Fixed assets

- 9 The figure for the revaluation of fixed assets shown in the accounts was initially based on a full and proper valuation for 75 per cent of the assets involved and a desk top exercise for the other 25 per cent of the assets in use. During the course of the audit the value of the portion subject to the desk top exercise was updated by the Valuer Capita Symonds. The revised valuation figure reported was £7.869 million less than the figure originally approved in the Balance Sheet. The Financial Statements were amended for this material difference and presented to the Resources Committee for approval on 28 September 2005.
- 10 The consolidated balance sheet should analyse the non-operational assets between assets under construction, investment properties and surplus assets for disposal (SORP 4.31 page 54).

Recommendations
<i>R1 The statement of accounts should be amended for the revised valuation figures for fixed assets.</i>
<i>R2 A full analysis of non-operational assets should be provided in future years.</i>

Statement of Recommended Practice (SORP 2004) disclosures

- 11 The Code of Practice on Local Authority Accounting in the UK: A statement of recommended practice applies to periods commencing on or after 1 April 2004. This is applicable to police authorities. It specifies the principles and practices of accounting required to prepare a Statement of Accounts which 'presents fairly' the financial position and transactions of the Authority. The following SORP disclosure requirements have not been met.

Accounting policy

- The accounts do not explicitly state that the financial information has the following qualitative characteristics (SORP 2 pages 7-10):
 - relevance;
 - reliability;
 - comparability;
 - understandability; and
 - materiality - all information is of such significance as to justify its inclusion.

- The accounts should state that the following accounting concepts have been given precedence:
 - going concern; and
 - primary legislative requirements.

Explanatory foreword (SORP 4.10 page 33)

- The SORP suggests a number of significant matters that should be included in the explanatory foreword. The following are not included:
 - disclosure of income against budget (Expenditure vs budget is disclosed); and
 - disclosure of borrowing facilities (or refer to note in the Consolidated Balance Sheet).

Consolidated Balance Sheet notes (SORP 4.31 page 56)

- For each class of tangible fixed asset included in the balance sheet at current value the year end gross book value and accumulated depreciation should be disclosed.

Capital expenditure and financing statement (SORP guidance notes for practitioners page 130)

- The capital expenditure and financing statement is not in the recommended format. In addition, the Authority will probably wish to link this summary to its Prudential Code Indicators by presenting the statement as a description of movements in the capital financing requirement in the year.

Recommendation

R3 The missing SORP disclosures should be included in future years' statements of account.

Other issues

- 12 The government grant deferred account is disclosed above the line within long-term liabilities. This should be disclosed below the line within financing items (SORP guidance notes page 113-115) and included within the Statement of Total Movement in Reserves.
- 13 The Statement of Total Movements in Reserves has been produced in a non-standard format and does not include movements on government grants deferred account (SORP guidance notes page 147-148). There should also be comparative figures and notes to support the entries in the Statement.

Recommendations

R4 The government grant deferred account should be disclosed below the line as a financing item on the balance sheet and included within the Statement of Total Movement in Reserves.

R5 The Statement of Total Movements in Reserves should follow the recommended format and include supporting notes.

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R1 The statement of accounts should be amended for the revised valuation figures for fixed assets.	3	Steve Mellor, Finance Officer, Police Authority	Yes	The Statement of Accounts were amended during the audit and presented to the Resources Committee for approval on 28 September 2005.	Actioned 28 September 2005
6	R2 A full analysis of non-operational assets should be provided in future years.	2	Steve Mellor, Finance Officer, Police Authority	Yes	This will be incorporated within the 2005/06 Financial Statements.	2005/06 accounts
7	R3 The missing SORP disclosures should be included in future years' statement of accounts.	3	Steve Mellor, Finance Officer, Police Authority	Partially agreed	Accounting Policy – Distinction needs to be made between accounting concepts and accounting policies. The audit comment relates to accounting concepts. The SORP states that these concepts should form the basis for preparing the accounts. There does not appear to be any SORP requirement to include a note on concepts within the accounts. However, this can be re-evaluated for the 2005/06 accounts.	2005/06 accounts

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
					<p>Explanatory Foreword – Agreed. The omissions will be incorporated within the 2005/06 accounts.</p> <p>Consolidated Balance Sheet – Further clarification is required in respect of this recommendation. The note in the accounts mirrors the CIPFA guidance notes for practitioners.</p> <p>Capital Expenditure and Financing Statement – Agreed. The 2004/05 accounts were amended to reflect the recommended format.</p>	<p>2005/06 accounts</p> <p>2005/06 accounts</p> <p>Actioned as part of 2004/05 accounts</p>

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R4 The government grant deferred account should be shown as a financing item on the balance sheet and included within the Statement of Total Movement on Reserves.	2	Steve Mellor, Finance Officer, Police Authority	Yes	The 2004/05 accounts were amended.	Actioned as part of 2004/05 accounts
8	R5 The Statement of Total Movements in Reserves should follow the recommended format and include supporting notes.		Steve Mellor, Finance Officer, Police Authority	Yes	The Statement of Total Movements in Reserves was amended in the 2004/05 accounts.	Actioned as part of 2004/05 accounts