
Government and Public Sector
***Staffordshire Police
Authority***

Annual Audit Letter

2010/11 Audit

January 2012



The Members
Staffordshire Police Authority
Police HQ
Weston Road
Stafford
Staffordshire
ST18 0YY

16 January 2012

Ladies and Gentleman

We are pleased to present our Annual Audit Letter summarising the results of our 2010/11 audit. A draft of this letter was presented to the members of the Audit Committee at its meeting on 13 January 2012.

Yours faithfully

A handwritten signature in black ink that reads 'PricewaterhouseCoopers LLP'.

PricewaterhouseCoopers LLP

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

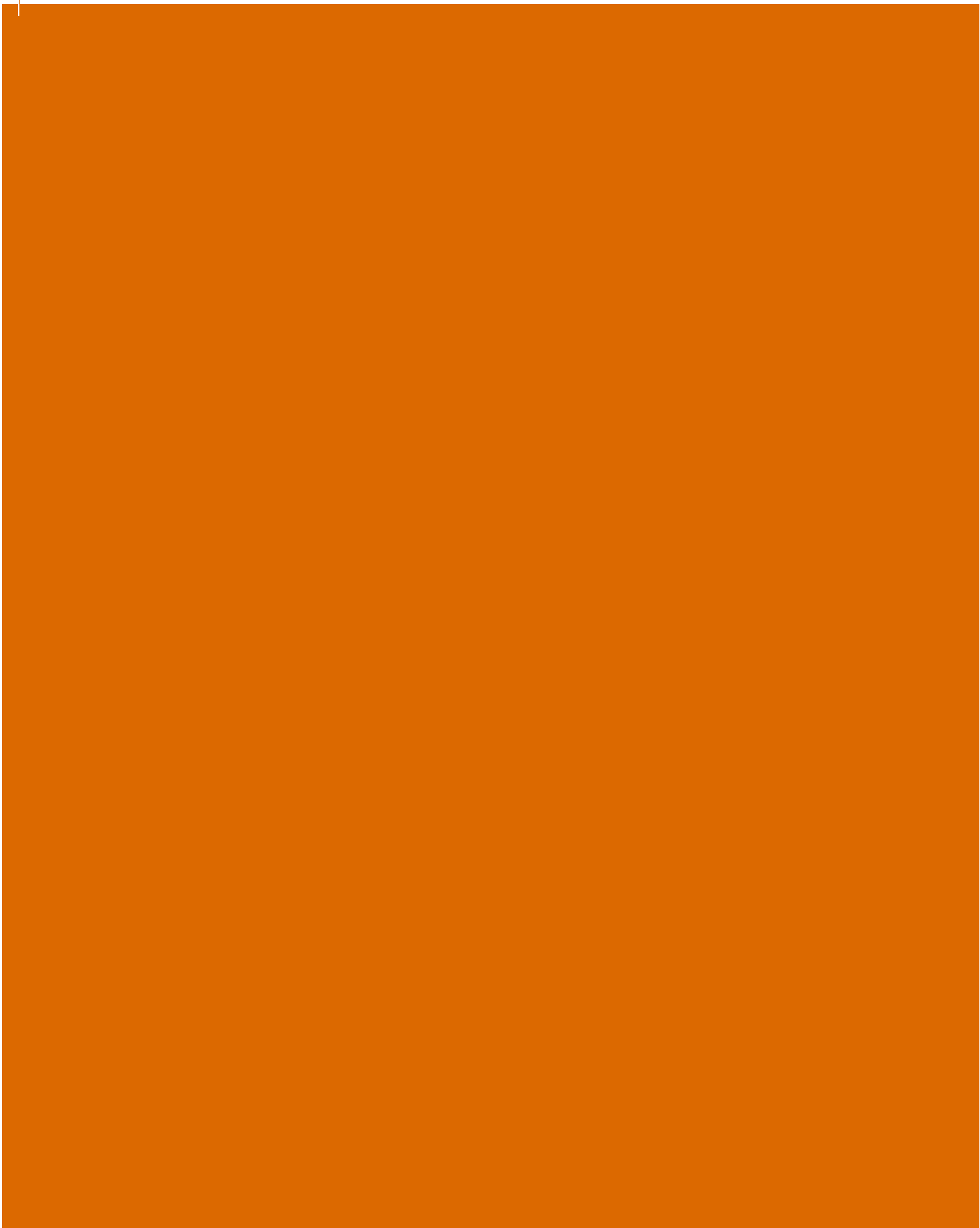
In March 2010 the Audit Commission issued a revised version of the 'Statement of Responsibilities of Auditors and of Audited Bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any member or officer in their individual capacity or to any third party.



Contents

<i>Introduction</i>	6
The purpose of this letter	6
Scope of work	6
Audit Scorecard	7

<i>Audit findings</i>	9
Accounts	9
Whole of Government Accounts	13
Financial standing/Going concern	13
Internal Controls	14
Use of Resources	14
Electors' questions or objections	15



Introduction

The purpose of this letter

The purpose of this letter is to provide a high level summary of the results of the 2010/11 audit work we have undertaken at Staffordshire Police Authority that is accessible for Members and other interested stakeholders.

We have already reported the detailed findings from our audit work to ‘those charged with governance’, which in the case of the Authority has previously been agreed as being the Authority’s Audit Committee, in the following reports:

- Audit Plan 2010/11 – January 2011;
- Progress Report – April 2011;
- Progress Report – June 2011; and
- Report on the results of our audit of the 2010/11 financial statements under the requirements of the International Standard on Auditing (ISA) (UK and Ireland) 260 (ISA (UK&I) 260) – September 2011.

Any work undertaken since the September 2011 Audit Committee meeting is reported in this Audit Letter.

Scope of work

Our audit work is conducted in accordance with the Audit Commission’s Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. As auditors we are responsible for:

- forming an opinion on the financial statements;
- reviewing the Annual Governance Statement;
- forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources;
- considering any questions or objections raised by local electors to the financial statements; and
- undertaking any other work specified by the Audit Commission.

Our 2010/11 audit work has been undertaken in accordance with the Audit Plan that we discussed and agreed with the Audit Committee at its meeting on 10 January 2011.

We have set out in the rest of this report what we consider to be the most significant matters arising from our audit.

The following scorecard summarises our views across the main areas of our audit using the following key:

Key



Red – significant improvements required









Amber – some improvements required



Green – no or some minor improvements required

Audit Scorecard

Audit Area		Comments
Financial statements		<p>Early in 2011 we reported to the Audit Committee our concerns over the capacity of the Finance Team to meet the challenge of transition to International Financial Reporting Standards (IFRS) within the deadlines. In the event, in the face of some significant in-year challenges, the Finance Team did meet the key deadline, to prepare and present the draft accounts to the Audit Committee before the end of June 2011, although some of their own internal deadlines were not met.</p> <p>Presentation of the draft accounts to the Audit Committee in June 2011, following review by the Treasurer, helped ensure that a good quality first draft of the accounts was available for the start of the audit. Our audit identified no material issues with respect to the quality of the draft accounts presented for audit, though some adjustments to the accounts were requested and agreed.</p> <p>Working papers were generally available for the start of the audit and were of high quality. However, there were some working papers that were not ready at the start of the audit and although this did not delay the start of the audit, it did mean some areas had to be started later during the on-site visit than we had planned and a few elements of the audit overran and required follow-up after the audit team had completed the on-site visit.</p> <p>The Finance Team responded positively to our audit questions and requests for information.</p> <p>We issued an unqualified audit opinion on 29 September 2011.</p>
Significant audit and accounting issues		<p>A number of audit and accounting issues were identified during the audit which are explained later in this report, in particular regarding the Employee Benefit Accrual.</p> <p>Our audit identified no significant audit and accounting issues. Our audit did identify a small number of unadjusted misstatements. After considering our ISA 260 report, the Authority's Audit Committee decided not to adjust the financial statements for the unadjusted items on the grounds that they were not material, either individually or in aggregate, to the truth and fairness of the accounts. We considered the qualitative and quantitative aspects of the unadjusted items and concluded that, if they remained unadjusted, this would not adversely impact on our audit opinion. We also identified a number of misstatements where the Authority did adjust the accounts: these adjustments did not impact your General Fund or your net assets position as they were presentational in nature.</p>
Whole of Government Accounts		<p>Our work on the Whole of Government Accounts consolidation pack concluded that it was consistent with the financial statements for the year ended 31 March 2011.</p>

<p>Financial standing/Going concern</p>		<p>We concluded that in overall terms the Authority had sufficient resources available to meet its commitments for at least a 12-month period after the date of our audit opinion. We therefore concluded that the use of the going concern assumption was appropriate in the preparation and presentation of the financial statements.</p> <p>The financial position for the six months to the end of September 2011 was reported to the Authority on 17 October 2011. The revenue monitoring financial statement for the period 1 April 2011 to 30 September 2011 showed the forecast outturn for the year to be £3.822m (2.0%) less than the approved budget. However, the Police Authority continues to face a very challenging period and savings of around £11m will be required to balance the budget in 2012/13. We understand that these savings have been identified, subject to the approval of the Police Authority at its meeting on 8 February 2012.</p>
<p>Deficiencies in internal control systems</p>		<p>We did not identify any significant deficiencies in Internal Control. Our work did identify some minor issues which we discussed with management.</p> <p>We reviewed the Annual Governance Statement to consider whether it complied with relevant guidance and whether it might be misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.</p>
<p>Use of Resources (Value for Money) conclusion</p>		<p>We reviewed documents and information provided by the Authority in order to assess it against the Audit Commission's criteria for ensuring that the Authority had in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>Based on this and other work we concluded that you had put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. We issued an unqualified conclusion on the Authority's arrangements for its use of resources on 29 September 2011.</p>

Audit findings

Accounts

We audited the Authority's Statement of Accounts in line with approved Auditing Standards during July, August and September 2011. We reported the detailed findings from our audit of the financial statements to the Authority's Audit Committee at a meeting on 23 September 2011. **We issued an unqualified audit opinion on 29 September 2011.**

Accounts preparation

At the April 2011 and June 2011 meetings of the Audit Committee **we reported our concerns over the capacity of the Finance Team to meet the challenge of transition to IFRS within the deadlines** as follows:

The Authority has a large number of areas to review and work on before producing IFRS accounts for 2009/10 and 2010/11. The Authority does have the expertise and capability to do this but because there is heavy dependence on a small finance team and tight timeframes there are some concerns around this.

In the event, in the face of some significant in-year challenges, the Finance Team did meet the key deadline, to prepare and present the draft accounts to the Audit Committee before the end of June 2011, although some of their own internal deadlines were not met.

We worked closely with the Finance Team to undertake early work on the IFRS transition and to provide support to them in determining the treatment of some complex and significant areas, such as Employee Accrued Benefits, throughout the restatement exercise. Through a combination of ongoing communication, technical support and early audit work the result was only a few small adjustments to the disclosures in the draft financial statements presented for audit.

Presentation of the draft accounts to the Audit Committee in June 2011, following review by the Treasurer, helped ensure that a good quality first draft of the accounts was available for the start of the audit. Our audit identified no material issues with respect to the quality of the accounts presented for audit.

Working papers were generally available for the start of the audit and were of high quality.

However, there were some working papers that were not ready at the start of the audit and although this did not delay the start of the audit, it did mean some areas had to be started later during the on-site visit than we had planned and a few elements of the audit overran and required follow-up after the team had completed the on-site visit.

That having been said, the **Finance Team worked hard to meet the timescales and were helpful in resolving our queries.** We would like to thank the Finance Team for their support and assistance during the audit.

Accounting issues

Employee Benefit Accrual (Short-term accumulating compensated absences)

The inclusion of an Employee Benefits Accrual in the accounts was a significant addition to the Authority's accounts and involved estimation uncertainty and judgements in its preparation.

The Employee Benefits Accrual was made up of 4 elements:

- annual leave;
- flexi-leave;
- time off in lieu (TOIL); and
- rest days in lieu (RDIL).

The Authority had undertaken a detailed assessment of each of the above 4 elements as at 31 March 2011. However, as a result of detailed reports and information not being available at as 31 March 2010 and 31 March 2009, the Authority made some key assumptions and estimates in order to retrospectively estimate the comparable figures for these dates using the data from 31 March 2011.

The following were the key assumptions applied:

- no change to annual leave, flexi-leave, TOIL and rest days in lieu policies;
- on average, employees take, or roll-over, a consistent level of these entitlements year-on-year; and
- averages were calculated and used based on applicable salary bandings and staff numbers at the opening and closing restated balance sheet dates.

The calculations for 2010/11 themselves were also subject to estimation, a level of sampling risk and also key judgements. These can be summarised as follows:

- annual leave entitlement to carry forward annual leave was capped at 5 days (in accordance with annual leave policy) for the calculation, although employees may have carried forward more than 5 days;
- annual leave reports included only 96% of employees; and
- flexi-leave: a sample of 5% (68 employees) had been used and the results projected across the population as an estimate for flexi-leave entitlement at the Authority.

The overall accruals included in the draft accounts were:

- 2010/11 – closing balance sheet (£4.9 million);
- 2009/10 – closing balance sheet (£4.8 million); and
- 2009/10 – opening balance sheet (£4.7 million).

2010/11 process

When reporting on the audit of the financial statements we commented on each element of the 2010/11 accrual in turn, with their respective values included in (brackets):

Annual leave (£1,401,000)

The key elements of the annual leave accrual were:

- 96% of employees sampled;
- 5 day cap on carry forward of unused leave as per employment contract had been applied in the accrual calculation;
- average entitlement to carry forward unused leave based on 96% sample identified as 2 days (applying 5 day cap); and
- 2 days average unused leave had been extrapolated over the 4% of staff not sampled (and used for the restatement calculations).

We reviewed and tested the accrual and were satisfied with the calculation undertaken. We sought management representations that the 5 day cap applied to the annual leave carry forward calculation as per employment contract was appropriate and fairly reflected the Authority's position. The financial impact of this policy was disclosed within the financial statements.

Overall, we concluded that the annual leave element of the 2010/11 accrual was not materially misstated in the financial statements.

Flexi-leave (£186,000)

The key elements of the flexi-leave accrual were:

- 5% of employees (68 employees) sampled;
- 8 hours average flexi-leave entitlement identified; and
- 8 hours average flexi-leave entitlement extrapolated over remainder of population.

We reviewed the Authority's sample and we also reviewed an additional sample of 68 employees to replicate the process the Authority had undertaken. Our sample found an average of 5 hours flexi-leave entitlement. We then quantified the potential impact of our testing by using a combined average of the figures calculated by the Authority and by ourselves to extrapolate across the population for flexi-leave entitlement. This resulted in a £35,000 reduction to the overall flexi-leave accrual.

Overall, we concluded that this did not represent a significant adjustment or that the original sample was inappropriate for this element of the 2010/11 accrual and therefore that the flexi-leave element of the 2010/11 accrual was not materially misstated in the financial statements.

Time off in lieu (TOIL) (£695,000)

The key elements of the TOIL accrual were:

- 100% of employees tested;
- average of 12 hours TOIL balance identified (utilised in the restatement calculations); and
- no estimation uncertainty.

We reviewed this element of the accrual and re-performed testing on a sample of TOIL balances; we found no issues or areas of concern.

Overall, we concluded that this is element of the 2010/11 accrual was not materially misstated in the financial statements.

Rest Days in Lieu (RDIL) (£2,683,000)

The key elements of the RDIL accrual were:

- 100% of employees tested; and
- no estimation uncertainty.

We reviewed this element of the accrual and tested a sample of RDIL balances; we found no issues or areas of concern. We drew to your attention the fact that the Authority had itself highlighted an operational issue that the RDIL position had not been actively managed or controlled and represented a high balance when compared to other similar forces.

We undertook some re-performance of a sample of employees included within this accrual and noted that the original calculation had not picked up public holiday leave entitlement where employees had been called in on a public holiday. We used an average public holiday entitlement and extrapolated this across the police officer population to establish a judgemental misstatement balance. This impacted on the opening and closing balance sheet for the prior year restatement.

2009/10 – Restatement of opening and closing balance sheet

As reported above, the Authority used the 2010/11 averages and applied these to the appropriate employee numbers and salary bands at each restated balance sheet date.

We tested this assumption by looking at a relatively small sample of employees. Whilst this highlighted differences and potentially some significant differences, we acknowledged that this was based on relatively small sample sizes and worked with the Authority to undertake sensitivity analysis by looking at a range of possible outcomes (downwards and upwards movements from the average) for each element of the accrual and the potential resultant impact on the financial statements both on the Balance Sheet and reserves and also the movement through the Comprehensive Income and Expenditure Statement.

Overall, we concluded that there is no risk of material misstatement both on the balance sheet and the movement through the Comprehensive Income and Expenditure Statement and the use of the 2010/11 averages was not an inappropriate assumption in the circumstances, whilst also acknowledged the degree of sensitivity around the assumptions used in the accrual.

We sought management representations over the appropriateness of the use of the 2010/11 averages to the restatement of the 2009/10 opening and closing balance sheets.

Unadjusted misstatements

Our audit identified a small number of unadjusted misstatements. Dependent on whether the adjustment in relation to the public holiday element of the Authority's employee benefit accrual was taken through the opening balance sheet or fully recognised in year, the impact would have been to increase the Authority's surplus on its Cost of Services and its net assets on the Balance Sheet by £612,000 or £222,000 respectively. **After considering our ISA 260 report, the Authority's Audit Committee decided not to adjust the financial statements for the unadjusted items on the grounds that they were not material, either individually or in aggregate, to the truth and fairness of the accounts. We considered the qualitative and quantitative aspects of the unadjusted items and concluded that, if they remained unadjusted, this would not adversely impact on our audit opinion.**

Adjusted misstatements

We identified a number of misstatements where the Authority did adjust the accounts. These adjustments did not impact your General Fund or your net assets position as they were presentational in nature.

1) Past Service Costs Gain – Pension Liability

In June 2010 the Government announced that the Consumer Price Index (CPI) would be used to calculate the minimum pension increase for public sector schemes rather than the Retail Price Increase (RPI) that had been used previously. CPI assumptions had been used for the calculation of the liability as at 31 March 2011, resulting in a £193.963 million reduction to the pension scheme liability and a past service cost gain.

This was originally shown through Non Distributed Costs and disclosed in Note 4 of the financial statements. This was amended to be shown as an exceptional item to highlight the significant one off accounting transaction that has been as a result of the change detailed above.

2) Employee Benefit Accrual (Short-term accumulating compensated absences)

In the draft accounts this balance was shown as a provision in the Balance Sheet. Paragraph 11 of International Accounting Standard (IAS) 19 "Employment Benefits" confirms that such amounts should be accounted for as accrued expenses, not provisions.

The Employee Benefit Accrual was taken from the provisions line and included in creditors as an accrual on the face of the Balance Sheet.

Whole of Government Accounts

We undertook our work on the Whole of Government Accounts consolidation pack as prescribed by the Audit Commission. The work was completed and the audited pack was submitted on 29 September 2011 in line with the national deadline for submission. **Our work on the Whole of Government Accounts consolidation pack concluded that it was consistent with the financial statements for the year ended 31 March 2011.**

Financial standing/Going concern

Financial standing/Going concern

The Authority is responsible for ensuring that it has arrangements in place to secure its financial standing. One of our key responsibilities as auditors is to fully consider the financial standing of the Authority.

Where there are significant doubts as to the Authority's ability to meet its statutory financial duties we are required to take appropriate steps to ensure that the Authority's accounts fully reflect such matters and to draw any concerns in relation to financial standing to the attention of management, the Board and in certain circumstances, to external parties.

We concluded that in overall terms the Authority had sufficient resources available to meet its commitments for at least a 12-month period after the date of our audit opinion. We therefore concluded that the use of the going concern assumption was appropriate in the preparation and presentation of the financial statements.

Current year position

The financial position for the six months to the end of September 2011 was reported to the Authority on 17 October 2011. This highlighted that:

- The revenue monitoring financial statement for the period 1 April 2011 to 30 September 2011 shows the **forecast outturn for the year to be £3.822m (2.0%) less than the approved budget.**
- The main reason for the under spend is the reduction in Police Officer numbers due to the implementation of Regulation A19. A19 will not be implemented until 30 November 2011, but Police Officers are taking the decision to leave the Force earlier than that date. The actual number of Officers has already fallen below the budgeted level for the year and will continue to fall as the year progresses. The reduction in Officer numbers, together with the reductions that are occurring in Police Staff and PCSO numbers, are essential for the Force to meet its funding shortfall in 2012/13.

It was concluded in the finance report that **the Police Authority continues to face a very challenging period and savings of around £11m will be required to balance the budget in 2012/13.** The fact that greater than anticipated savings are being made in 2011/12 will help in facing that challenge. The Authority recognises that these savings should be used to effectively manage the transitions that are required to enable a balanced budget to be achieved for each year up to 2014/15, and beyond, whilst at the same time maintaining service standards. The plan to utilise these savings is an essential part of the Authority's overall Medium Term Financial Strategy and will include providing for redundancy costs (thus avoiding the need for external borrowing), enhanced operational Information Technology (particularly in police vehicles) and providing for better estates facilities. The savings plan is being formulated by the Finance Panel and is due to be discussed at the Police Authority meeting on 8 February 2012.

We understand that the Police Authority has been kept fully up to date on the overall financial position as next year's budget is formulated and that **the savings required to balance the 2012/13 budget have been identified, subject to the approval of the Police Authority at its meeting on 8 February 2012.** We will continue to monitor the Authority's financial resilience and performance against budget and against its savings plans as a routine part of our 2011/12 audit procedures.

Internal Controls

Accounting systems and systems of internal control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the financial statements and our review of the Annual Governance Statement. **We found no areas of concern to report in this context, there were no matters which we brought to your attention.**

Annual Governance Statement

Local authorities are required to produce an Annual Governance Statement (AGS) that is consistent with guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE). The AGS accompanies the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA/SOLACE guidance and whether it might be misleading or inconsistent with other information known to us from our audit work. **We found no areas of concern to report in this context.**

Use of Resources

Economy, efficiency and effectiveness

Our Use of Resources Code responsibility required us to carry out sufficient and relevant work in order to conclude on whether you had put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

In accordance with guidance issued by the Audit Commission, in 2010/11 our conclusion was based on two criteria:

- the organisation has proper arrangements in place for securing financial resilience; and
- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Unlike in previous years, we were not required to reach a scored judgement in relation to these criteria and the Audit Commission did not develop 'key lines of enquiry' for each criteria. Instead, we determined a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

Summary of key findings

- The Authority is facing a significant challenge around reducing costs over the next few years as a result of the Government's comprehensive spending review (CSR) and the indicative police grant figures. The Authority needs to identify and deliver £10.8 million of sustainable savings from 2012/13 and between £6.7 and 9.6 million over the 2013/14 to 2016/17 financial years to balance the budget, based on current assumptions for funding, which may change over time, and the latest Medium Term Financial Strategy (2012/13 to 2016/17) presented to the Authority at its July 2011 meeting.

- The financial challenges are compounded with changes likely to the Policing service itself; the implications of the Police Reform and Social Responsibility bill, with the introduction of directly elected Police and Crime Commissioners and Part 2 of the Winsor review around police officers and staff remuneration and conditions.
- The Authority has a good track record of identifying efficiency savings. Efficiency savings targets have been exceeded for the period 2008/09 to 2011/12 and the Authority has continued to build and deliver on its Communities First Strategy. The Authority successfully delivered £5.6 million of savings in 2010/11.
- The Authority closely monitors performance against key targets for areas including confidence and satisfaction, promoting safety, organisational management, serious crime and protection, tackling crime and local objectives.
- Performance monitoring will be particularly important as the Authority makes savings, to ensure objectives are being met and areas for concern are identified and actions taken as soon as possible to rectify any deteriorating performance.
- Overall there are clearly challenges ahead. However, from reviewing the arrangements in place for both financial resilience and challenging economy, efficiency and effectiveness it is clear the Authority is making progress in managing the impact of the CSR and focusing on ensuring service and performance is maintained in key areas.

Conclusion

In overall terms, based upon the work that we performed, we concluded positively on the two stated criteria. **We issued an unqualified conclusion on the Authority's use of resources on 29 September 2011.**

Electors' questions or objections

There were no electors' questions or objections received regarding the financial statements.

© 2012 PricewaterhouseCoopers LLP. All rights reserved. 'PricewaterhouseCoopers' refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom) or, as the context requires, other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.