

Annual Audit Letter

West Midlands Police Authority

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

I have included only significant recommendations in this report.

Audit opinion and financial statements

1 I gave an unqualified opinion on your financial statements on 29 September 2010.

2 From next year the Authority will prepare its financial statements for the first time under International Financial Reporting Standards (IFRS). Finance staff are currently finalising the work to re-state the 2009/10 financial statements under IFRS and anticipate that you will meet the required deadlines. It is important that the Authority continues to monitor progress over the next few months.

Value for money

3 I have also given an unqualified value for money conclusion, as you have adequate processes in place to manage and use your resources to deliver value for money.

Current and future challenges

Financial position

4 Across the country, the public sector is facing severe and long-term social and financial challenges over the next few years. The recent comprehensive spending review (CSR) indicated that central government police funding will reduce by 20 per cent in real terms by 2014/15. In addition, police authorities are also faced with abolition from 2012 following the government announcement to introduce directly elected Police and Crime Commissioners (PCCs).

5 You had already made assumptions about future funding levels prior to the CSR and started to make plans to reduce expenditure accordingly. Your initial evaluation of the CSR suggests that these assumptions were broadly appropriate, although some significant uncertainties remain – for example in relation to specific grants. You will therefore be continuing to refine your plans as the government's intentions become clearer.

6 Recognising the difficult circumstances faced by the police service, a number of national reports have been issued recently looking at the future of value for money and governance in policing. These reports recognise the success of the service in reducing crime and increasing public confidence but also challenge both police authorities and forces to review current ways of service delivery to minimise the impact of reduced funding.

7 You have recognised the need to change and are working with the Chief Constable to draw up plans to review service delivery under the new conditions. It is critical that the Authority continues to play its role in shaping the delivery of policing for the future even if your own future is uncertain.

Project Champion

8 A significant current issue for the Authority and the Force is the aftermath of Project Champion, a Home Office funded scheme which was intended to install an intensive network of CCTV and ANPR (automatic number plate recognition) cameras around two predominantly Muslim communities in Birmingham. As a result of very strong community concerns once the cameras were installed, the project has been abandoned. An independent report has since identified a range of significant failings on the part of both the Force and the Authority.

9 The issues raised by Project Champion are of great concern to me in my role as the Authority's external auditor. It is clear that serious mistakes were made and that, as a result, good value-for-money has not been obtained and considerable harm has been done to community relations. However, the response of both the Force and the Authority once concerns were raised has been effective and open, with the critical independent report published, considered in public meetings and with well-publicised responses. I do not therefore consider it necessary or appropriate for me to carry out my own investigation or specific report at this stage, but I will continue to monitor progress in implementing the recommendations from the independent report and in dealing with outstanding issues such as the future of the cameras themselves.

Financial statements and annual governance statement

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

I gave an unqualified opinion on the Authority's 2009/10 financial statements on 29 September 2010, within the statutory target date.

Overall conclusion from the audit

10 I issued an audit report including an unqualified opinion on the financial statements on 29 September 2010.

11 I reported the detailed findings from my audit of the Authority's 2009/10 accounts in my annual governance report to the Audit Committee meeting held on 23 September 2010. The accounts were prepared to a good standard within the closedown timescales laid down by the Accounts and Audit Regulations. During the audit, I agreed a small number of amendments to the Statement of Accounts with your accounting team. These related to accounting disclosures notes and did not affect the end of year balance on the General Fund.

Weaknesses in internal control

12 I identified scope for improvements in controls in the payroll, fixed assets, and general ledger systems. Although our testing confirmed that these had not resulted in material errors or uncertainties in your accounts, they represent areas for improvement in your internal control arrangements that need to be addressed.

13 My Annual Governance Report presented to Audit Committee held on 23 September 2010 contained detailed recommendations to address the weaknesses identified.

Treasury Management

14 The Authority invested £5.4 million in Landsbanki, an Icelandic Bank which defaulted on repayments in October 2008. The Icelandic Government intends to honour its commitments regarding its banks. However the repayments depend on whether local authority deposits are treated as preferential.

15 We understand that Landsbanki has accepted the claims lodged by the local authorities as being of priority status. If ratified, recovery of 95 per cent is anticipated; without preferential status, recovery is anticipated at 38 per cent.

16 Like other authorities affected by these events and the wider changes to the banking sector, you have revised your treasury management arrangements. This has reduced the risk of similar problems occurring in future.

Recommendations

R1 Monitor implementation of the IFRS work plan to ensure that the IFRS transition is smooth and timely. Determine IFRS accounting policies and ensure that these are adopted ahead of the financial statements being prepared.

R2 Ensure recommendations contained in my Annual Governance Report dated September 2010 are actioned.

R3 Continue monitoring developments affecting the recovery of the Landsbanki investments.

Value for money

I considered whether the Authority is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

2009/10 use of resources assessments

1 At the end of May 2010, the Commission wrote to all chief executives to inform them that, following the government's announcement, work on Comprehensive Area Assessment (CAA) would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

2 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

3 I report below the significant findings from the work I have carried out to support the vfm conclusion.

VFM conclusion

4 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

5 This is a summary of my findings.

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Risk management and internal control	Yes
Good Governance	Yes
Managing resources	
Natural Resources	Yes
Workforce	Yes

6 I issued an unqualified conclusion stating that the Authority had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

7 The strengths I identified included:

- good financial management enables the Authority to set low precepts;
- the Authority and Force have a strong ethical framework;
- West Midlands Police continues to have low sickness levels; and
- West Midlands Police has reduced its carbon footprint as demonstrated by the achievement of Carbon Trust accreditation.

8 You plan your finances effectively to deliver your strategic priorities and secure sound financial health. You use robust planning processes integrating capital, revenue and treasury management planning, ensuring financial stability over the medium term. This means you are well-placed to meet the challenges of the current financial environment.

9 You have a good understanding of your costs and performance which has enabled you to achieve efficiencies in your activities. Performance and finance monitoring information is reported separately. These are robust and have led to decisions being made and commissioning of services that have led to efficiencies being delivered.

10 You commission and procure quality services and supplies. These are tailored to local needs delivering sustainable outcomes and value for money. In most of your work, you make good use of consultation with citizens and partners to understand the community's ongoing needs, working with partners and forces and authorities to share staff and shape services.

11 You produce relevant, reliable data and information. This has been used to support decision making and manage performance.

12 You have good governance arrangements in place. Members and officers promote and demonstrate the principals of good governance to staff, partners and the community.

13 You manage your risks effectively overall and maintain a sound system of internal control.

14 You are making effective use of natural resources. You have some good initiatives in place and have been innovative in trialling a battery powered patrol car. You have achieved Carbon Trust accreditation.

Approach to local value for money work from 2010/11

15 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

16 My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

17 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Authority in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

Project Champion

18 A significant current issue for the Authority and the Force is the aftermath of Project Champion, a Home Office funded scheme which was intended to install an intensive network of CCTV and ANPR (automatic number plate recognition) cameras around two predominantly Muslim communities in Birmingham. As a result of very strong community concerns once the cameras were installed, the project has been abandoned.

19 The project cost of £3 million was funded through ACPO (TAM) – the counter-terrorism fund administered by the Association of Chief Police Officers. It was conceived in the aftermath of terrorist attacks in 2007 in London and Glasgow. The cameras were intended to allow surveillance of movements in and out of the communities of Sparkhill and Alum Rock in order to reduce the risk of terrorist attacks. In total, 49 hidden cameras were installed (47 of which were ANPR, some of which had overview CCTV to record vehicle details), together with 38 overt CCTV and 106 overt ANPR cameras. Although conceived as a counter-terrorist project, during its development it also began to be seen as contributing to a more general crime reduction and community safety agenda.

20 As a result of the community concerns, the Chief Constable commissioned his counterpart at Thames Valley Police to carry out an independent investigation of Project Champion, the results of which were published on 30 September 2010. She found that:

- the thinking behind the project should have been challenged from the start and questions should have been asked about its proportionality, legitimacy, authority and necessity;
- there was little evidence of consideration of compliance with the legal and regulatory framework relating to use of CCTV and ANPR;
- the more general crime reduction aims of the scheme which emerged during implementation were not properly reflected in project plans and would not have been delivered;
- opportunities for both senior officers and the Authority to provide challenging oversight of the project were missed; and
- the consultation phase was too little, too late.

21 Both the Authority and the Force have accepted the report's findings and have responded by apologising to the communities and by drawing up action plans which are not confined solely to addressing the report's recommendations. Consideration of the report and responses has been carried out in a very open way intended to be the start of rebuilding community confidence.

22 The issues raised by Project Champion are of great concern to me in my role as the Authority's external auditor. It is clear that serious mistakes were made and that, as a result, good value-for-money has not been obtained and considerable harm has been done to community relations. However, the response of both the Force and the Authority once concerns were raised has been effective and open, with the critical independent report published, considered in public meetings and with well-publicised responses. I do not therefore consider it necessary or appropriate for me to carry out my own investigation or specific report at this stage, but I will continue to monitor progress in implementing the recommendations from the independent report and in dealing with outstanding issues such as the future of the cameras themselves.

Financial position

23 Across the country, police services face severe and long term social and financial challenges over the next few years. The recent CSR indicated that central government police funding will reduce by 20 per cent in real terms by 2014/15. The government will cut almost two thirds of the reduction in funding by 2012/13.

24 This will present a challenge to the Authority for the coming years in preserving services to local residents, keeping a sound financial position and delivering value for money.

25 Prior to the CSR, your financial planning was based on an estimated funding gap of between £105 million and £125 million by 2014/15. Your initial evaluation of the impact of CSR suggests that this remains a reasonable assessment of your position. You are already taking steps to reduce staffing numbers and overall spending in 2011/12 and this work will need to continue.

26 You have identified that there are some significant uncertainties in the position even after the CSR, for example in relation to specific grant funding, where future levels of grants could make a significant difference to the affordability of both police officer and PCSO numbers. You are therefore continuing to monitor the emerging information and review your plans accordingly.

Future developments

Audit Commission, Her Majesty's Inspectors of Constabulary (HMIC) and Wales Audit Office (WAO) National Reports

27 In the last six months, inspectorates have issued four national reports which look at the future of value for money and governance in policing (Appendix 2).

28 The reports deal with different topics, covering achieving value for money with limited funding and reporting on the interim results from specific inspections of police authorities. All four reports, however, challenge both police authorities and forces to review current ways of service delivery to meet public expectations in future years.

29 The reports note the police service has reduced crime and increased public confidence during a time of expansion. In a new era of austerity with reduced funding, the reports challenge police authorities and forces to:

- show local strategic leadership of reform, taking decisive action to bridge funding gaps;
- redesign police services by using a longer-term transformational approach linking spending to its assessment of threat of serious criminality, the harm crime causes and the risks of day-to-day crime;
- challenge effectively all spending and efficiency targets, not just of support but operational functions, including the way forces use front-line officers;
- devise medium term plans geared to the cuts required, supported by deliverable plans;
- save up to £1 billion (12 per cent of government funding), by better workforce management, improved productivity, merging business support, better procurement and working with other forces and partners; and
- prioritise visible policing over all the police do to achieve savings of beyond 12 per cent of government funding.

30 You have recognised the need to change and are working with the Force to draw up plans to continue reviewing service delivery under the new conditions.

31 It is critical that the Authority continues to play its role in shaping the delivery of policing for the future even though your own future is uncertain.

Police reform

32 The government has announced its plan to abolish police authorities and introduce directly elected Police and Crime Commissioners (PCCs) by May 2012. PCCs will cover the police force area and hold Chief Constables to account for the force's performance. A Police and Crime Panel is to have overview and scrutiny powers over the Commissioner.

33 The national reports on the inspections of police authorities ('Learning Lessons' – see Appendix 2) found that most police authorities were performing adequately, but in general were not:

- taking a strategic lead in deciding the longer-term shape of policing for their area; and
- ensuring a clear and sustained focus on VFM and collaboration.

34 Replacing police authorities with PCCs raises several risks relevant to these key themes of leadership and VFM for authorities. The report suggests authorities should review their:

- capacity, to ensure members and officers have the vision, drive and ability to deal with the risks, associated with the transition;
- strategic direction, to focus on key priorities and ensuring the force maintains performance in key areas with fewer resources;
- scrutiny role in both engaging with and challenging the force to achieve VFM; and
- governance role in upholding key financial controls during major organisational change.

35 PCCs will have a community safety role with potential to commission community safety work by partners in local areas. At the same time, the government is reviewing rules around community safety to free partnerships from central prescription. The removal of prescription creates opportunities for police, councils and other partners to focus on and respond to local concerns.

36 Commissioners will need better information to make a positive contribution and impact in community safety. However, partnerships add complexity in providing transparent information to the public. The partnerships that will emerge will need to agree on:

- providing clear, credible and easy to understand information to the public;
- a better understanding of the different communities to adapt policing to their needs; and
- showing effective scrutiny, challenge and review in deciding actions for local communities.

Recommendations

R4 Continue to monitor progress in implementing the recommendations from the independent report into Project Champion.

R5 Monitor progress on outstanding issues related to Project Champion, such as the future use or disposal of the cameras.

R6 Continue to play its role in shaping the delivery of policing for the future, even if its own future is uncertain.

Closing remarks

37 I have discussed and agreed this letter with the Authority Treasurer and the Force Director of Resources. I will present this letter at the Audit Committee on 9 December 2010 and will provide copies to all Authority members.

38 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Authority during the year.

Report	Date issued
Audit Fee Letter	June 2009
Audit opinion plan	June 2010
Annual Governance Report	September 2010
Auditors report on the financial statements	September 2010
Value for money conclusion	September 2010

39 The Authority has taken a positive and helpful approach to our audit. I wish to thank the Authority and Force staff for their support and cooperation during the audit.

John Gregory
District Auditor
November 2010

Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	97,200	97,200	0
Value for money	10,800	10,800	0
Total audit fees	108,000	108,000	0

Appendix 2 National Reports

In the last six months, the Audit Commission, Her Majesty's Inspectors of Constabulary (HMIC) and the Wales Audit Office (WAO) have issued four national reports which look at the future of value for money and governance in policing:

Value for money

- Sustaining value for money in the police service (Audit Commission, HMIC and WAO: July 2010); and
- Valuing the Police: Policing in an age of austerity (HMIC: July 2010);

Police Authority inspection

- Learning Lessons: An overview of the first ten joint inspections of police authorities (HMIC and Audit Commission: March 2010); and
- Police governance in Austerity: thematic report into the effectiveness of police governance (HMIC: October 2010).

Appendix 3 Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the accounts, auditors must give their 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;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Financial statements

The annual accounts and accompanying notes.

Unqualified

The auditor does not have any reservations.

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 money, people and time.

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