

# Northern Joint Police Board

Draft Report to Members and the Controller of Audit  
on the 2008/09 Audit

October 2009



 AUDIT SCOTLAND





# Northern Joint Police Board

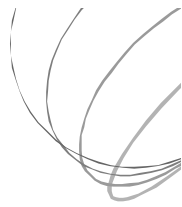
Draft Report to Members and the Controller of Audit  
on the 2008/09 Audit

October 2009



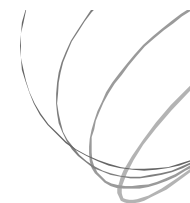
# Contents

<b>Introduction</b>	<b>1</b>	<b>Performance</b>	<b>10</b>
<b>Financial statements</b>	<b>2</b>	<b>Final remarks</b>	<b>10</b>
<b>Governance</b>	<b>7</b>	<b>Appendix A: Action Plan</b>	<b>14</b>



# Introduction

1. This report summarises the findings from our 2008/09 audit of the Northern Joint Police Board. The scope of the audit was set out in our annual audit plan issued on 24 March 2009.
2. The financial statements of the Joint Board are the means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. It is the responsibility of the Joint Board to prepare financial statements which give a true and fair view of the financial position at 31 March 2009 and income and expenditure for the year then ended.
3. The members and officers of the Joint Board are responsible for the management and governance of the organisation. As external auditors, we review and report on the arrangements in place and seek to gain assurance that:
  - the financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed;
  - the Joint Board's system of recording and processing transactions provides an adequate basis for the preparation of the financial statements and the effective management of assets and interests;
  - the Joint Board has adequate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability;
  - the systems of internal control provide an appropriate means of preventing or detecting material misstatement, error, fraud or corruption;
  - the Joint Board has proper arrangements for securing best value in its use of resources.



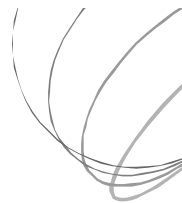
# Financial statements

## Introduction

4. In this section we summarise key outcomes from our audit of the Joint Board's financial statements for 2008/09. We also summarise key aspects of the Joint Board's reported financial position and performance to 31 March 2009.
5. We audit the financial statements and give an opinion on:
  - whether they give a true and fair view of the financial position of the Joint Board and its expenditure and income for the year; and
  - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
6. We also review the Statement on the System of Internal Financial Control by considering the adequacy of the process put in place by the Joint Board to obtain assurances on systems of governance and internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the Joint Board.

## Overall conclusion

7. Our audit certificate is qualified due to a disagreement about the accounting treatment of FRS 17 (Retirement Benefits) pension costs. The Local Government Pension Reserve Fund (Scotland) Regulation 2003 (the 2003 Regulations), which provides the statutory basis for local authorities to replace FRS 17 based costs with the actual pension contributions / payments, does not currently apply to the new pension scheme established with effect from 6 April 2006 by The Police Pensions (Scotland) Regulations 2007. Although the Scottish Government intend amending the regulation to include this new scheme, there is currently no statutory basis for reversing the FRS 17 based costs from the General Fund in respect of this scheme.
8. As the financial statements have been prepared on the basis that all FRS 17 based costs can be reversed from the General Fund, the General Fund balance and Pensions Reserve are overstated by £1.902 million as at 31 March 2009. The Joint Board has decided not to amend the financial statements for this material misstatement and we have qualified our auditor's report as a result.
9. Except for the financial effect on the general fund of the matter referred to in the preceding paragraph, in our opinion the financial statements



- give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, of the financial position of Northern Joint Police Board as at 31 March 2009 and its income and expenditure for the year then ended; and
  - have been properly prepared in accordance with the Local Government (Scotland) Act 1973.
10. There were a number of significant adjustments made to the figures included in the un-audited financial statements provided for public inspection. Details of the adjustments are summarised below in paragraph 17.

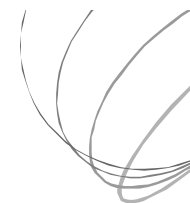
## **Financial position**

### **Going concern**

11. The Joint Board's balance sheet at 31 March 2009 shows net liabilities of £280.136 million. Auditing standards require auditors to consider an organisation's ability to continue as a going concern when forming an opinion on the financial statements. One of the indicators that may give rise to going concern considerations is an excess of liabilities over assets.
12. The net liability position is due to the requirements of Financial Reporting Standard 17 (retirement benefits) where there is an obligation to recognise the Joint Board's full pension obligations in the year they are earned. This technical accounting requirement has had no impact on the underlying basis for meeting current and ongoing pension liabilities which will be met, as they fall due, by contributions from constituent authorities in the normal way. In common with similar authorities, the Joint Board has considered it appropriate to adopt a going concern basis for the preparation of the financial statements. We concur with this approach.

### **Financial performance 2008/09**

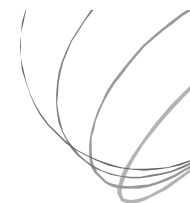
13. The Joint Board's net operating expenditure for 2008/09 amounted to £56.792 million (after eliminating amounts which do not affect the General Fund Balance for the year) and was met by police grant of £28.888 million, contributions from constituent authorities of £27.548 million, leaving a deficit of £0.356 million which was met from a transfer from the general fund reserve. In his report, the Treasurer summarises performance against budget. The Board's net budgeted expenditure in 2008/09 was £60.566 million giving a net underspend of £3.774 million. The main reason for the underspend was the fact that the budget was prepared before the ICT service was transferred to the Scottish Police Services Authority (SPSA) and this had a budget provision of £2.200 million. Other Income was also £1.339m above budget due to additional income from officers' secondment and higher income from rental of radio sites.



14. The Joint Board's general fund reserve at 31 March 2009 amounted to £3.315 million, £2.167 million of which is earmarked for commuted pension payments for staff and officers eligible to retire but who have opted to remain in post. Based on the reserve strategy approved by the Board in its meeting on 28 August, the remaining balance of £1.148 million comprises £0.343 million earmarked for unplanned or unforeseen operational incidents, £0.254 million for contributions to national projects and the remaining £0.551 million for general use.
15. Capital expenditure totalled £3.287 million and was funded by government grant of £1.546 million, current revenue of £0.032 million, proceeds from sale of assets received in year of £1.690 million and a transfer from the capital receipts reserve of £0.019 million.

### **Issues arising from the audit of the financial statements**

16. The financial statements are an essential means by which the Joint Board accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources. The Board's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June.
17. Local authorities in Scotland are required to follow the *Code of Practice on Local Authority Accounting in the United Kingdom – a Statement of Recommended Practice* (the SORP). No major changes were introduced by the 2008 SORP. Details of significant accounting issues arising in the course of our audit are summarised below:
  - **Impairment of assets:** Impairment of fixed assets amounting to £1.419 million was shown as a separate item below net cost of services in the Income and Expenditure Account. This amount should have been charged to the relevant services and presented within Net Cost of Services. The presentation was amended accordingly and there was no impact on the deficit for the year.
  - **Amortisation of government grant:** The annual amortisation of government grant released to services for land and building and vehicles was overstated by £0.030 million and £0.163 million respectively compared to the corresponding depreciation. The difference relating to land and building was due mainly to the change in the useful life of assets following revaluation of these assets while for vehicles the residual value of the assets had not been taken into consideration in the calculation of amortisation. The overstatement of the government grant amortised for both land and building and vehicles was reversed. This increased the deficit by £0.193 million but was reversed through the movement in the general fund balance and therefore did not impact on the general fund.



- **Corporate and Democratic Core:** Corporate and democratic core costs (CDC) were overstated by £0.128 million due to an over-allocation of central support services charge to this category of expenditure. The above amount was reversed out of the CDC and allocated to the various services.
- **Nairn station:** Capital expenditure of £0.173 million incurred in the construction of the police station at Nairn was included in operational assets at 31 March 2009 but was later assessed as non-operational due to the volume of activity and capital spending relating to this asset after the balance sheet date. The asset was reclassified from operational to non-operational assets at 31 March 2009.
- **Specialised properties:** The 2007 SORP stated that specialised operational properties should be valued on the basis of the depreciated replacement cost (DRC) method of valuing property. The 2008 SORP further clarifies this guidance by stating that DRC should be used only where there is insufficient market-based evidence of the existing use value (EUUV); otherwise the EUUV basis should be used. It also states that it should not be automatically assumed that evidence is not available simply because the property is specialised. The existing valuation policy of the Joint Board for specialised properties is DRC and may require to be reassessed in 2009/10.

#### Key risk area 1

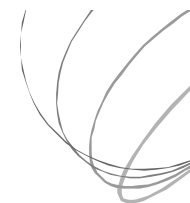
- **Fixed assets register for vehicles:** The opening figures for cost and accumulated depreciation for operational vehicles differ from the fixed assets register by £0.516 million. There is no impact however on the net book value since the difference is the same for both cost and accumulated depreciation.

#### Key risk area 2

### IFRS adoption

18. Local government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2010/11. It is important that the Joint Board starts the transition period in 2009/10. A comparative balance sheet as at 1 April 2009 will be required and whole of government accounts will also be required on an IFRS basis from 2009/10.

#### Key risk area 3

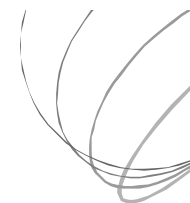


## Financial outlook – pension liabilities

19. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long and the estimation process is complex and involves many areas of uncertainty that are the subject of numerous assumptions.
20. In accounting for pensions, FRS 17 is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This requirement results in large future liabilities being recognised in the financial statements.
21. The police officers' pension scheme is unfunded and, therefore, has no assets to be valued. Note 14 to the Balance Sheet highlights that the present value of scheme liabilities at 31 March 2009 is £301.035 million (£326.378 million at 31 March 2008). As the scheme is unfunded, the pension liability will fall to be met by serving police officers' contributions and by taxpayers in the future (through constituent authorities' contributions).
22. The Board's estimated pension liabilities for support staff at 31 March 2009 exceeded its share of assets in the Highland Council Pension Fund by £6.693 million (£3.968 million at 31 March 2008).
23. The contribution paid by the Board into The Highland Council Pension Fund in 2008/09 was 290% of employees' contributions (280% in 2007/08) which was in line with the recommendation made by the actuary as at their last full actuarial valuation at 31 March 2008. Contribution rate in the 2009/10 financial year is 275%.

## Legality

24. Each year we request written confirmation from the Treasurer that the Joint Board's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes. The Treasurer has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of other senior officers, the financial transactions of the Joint Board were in accordance with the relevant legislation and regulations governing its activities.
25. There are no additional legality issues arising from our audit which require to be brought to members' attention.



# Governance

## Introduction

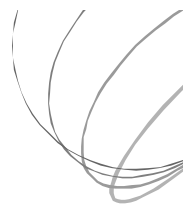
26. In this section we comment on key aspects of the Joint Board's governance arrangements during 2008/09.

## Overview of arrangements in 2008/09

27. Corporate governance is concerned with structures and processes for decision making, accountability, control and behaviours at the upper levels of the organisation. The Joint Board has a responsibility to put in place arrangements for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice.
28. A Statement on the System of Internal Financial Control is included within the annual financial statements, and highlights the Treasurer's view that reasonable assurance can be placed upon the adequacy and effectiveness of the Joint Board's internal financial control system. The statement highlighted Internal Audit findings on the computer audit of the Joint Board's Oracle 11i Payroll & Software Licensing comprising : the responsibility for software asset management has not been allocated and no checks were carried out to ensure that unauthorised or illegal software was not being used on Northern Constabulary's premises. The statement complies with accounting requirements and is consistent with the findings of our audit.

## Systems of internal control

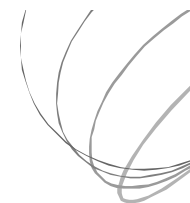
29. The Joint Board's financial transactions are processed through The Highland Council's financial systems. It is the responsibility of the Council's management to maintain adequate financial systems and associated internal controls. The auditor evaluates significant financial systems and associated internal controls both for the purpose of giving an opinion on the financial statements and as part of a review of the adequacy of governance arrangements.
30. Our review of these systems was conducted as part of the audit of The Highland Council, supplemented by specific audit work on the Joint Board's financial statements. Overall there are no material issues of concern in relation to the operation of the council's main financial systems.
31. Internal audit plays a key role in the Joint Board's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. The Highland Council's internal audit section provided an internal audit service to the Joint Board during 2008/09.



32. As part of our audit of The Highland Council we conducted a formal review of the effectiveness of the internal audit function and overall we found the provision of internal audit at Highland Council meets appropriate professional standards, although we did identify areas for improvement. These include the need to make a more realistic provision for unplanned work, the need to manage time budgets and staff performance effectively and the need for the internal audit staffing establishment to be kept fully resourced.
33. The internal audit plan for 2008/09 assumed audits would be undertaken for the Joint Board in six areas: computer audit of Oracle 11i payroll & software licensing, corporate governance and risk management, procurement (compliance with McClelland report), revenue contracts, health and safety and finance and asset management. In our Annual Audit Plan we stated that we would be placing reliance on the computer audit of payroll and software licensing, procurement, revenue contracts and finance and asset management. Internal audit however, was only able to complete the audit of procurement and computer audit of Oracle 11i payroll and software licensing in 2008/09. This meant that we could only place very limited reliance on their work and therefore had to extend our own testing to provide us with sufficient appropriate audit evidence to support our opinion on the financial statements. The internal audit plan for 2009/10 was presented to the Audit Working Party Group in August 2009 and the main areas we intend to place reliance on are the audit of: payroll, corporate governance and risk management and asset management.

#### **Key risk area 4**

34. In view of the limited reliance we could place on internal audit work, we performed additional specific work on the Joint Board's budgetary control system and we also reviewed the payroll system as planned. The details of our findings along with management responses and target dates for implementation as appropriate are contained in a separate report. The main findings from these audits are:
- financial regulations were last updated in August 2003 and require updating to accommodate changes in the operational structures and good practice principles;
  - absence of formal and detailed procedures covering budget setting, control and monitoring;
  - absence of a detailed budget holders register;
  - insufficient segregation of duties in respect of payroll.

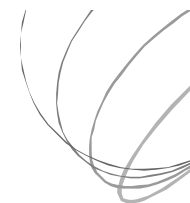


## Prevention and detection of fraud and irregularities

35. The Joint Board has appropriate arrangements for the prevention and detection of fraud and corruption. These arrangements include a strategy for the prevention and detection of fraud and corruption, written procedures for the investigation of suspected cases of fraud and corruption and a whistle blowing policy.

### **NFI in Scotland**

36. During 2008/09, we continued to monitor the Joint Board's participation in the National Fraud Initiative (NFI). NFI brings together data from councils, police and fire and rescue boards, health bodies and other agencies to help identify and prevent a wide range of frauds against the public sector. These include occupational pension fraud and payroll fraud.
37. The last NFI exercise (2006/07) has to date found overpayments and savings totalling £13million including projected forward savings. Where fraud or overpayments are not identified in a body, assurances can usually be taken about internal arrangements for the prevention and detection of fraud.
38. The 2008/09 NFI exercise is currently underway with a National Report due to be published by Audit Scotland in May 2010. The NFI results (data matches) were made available to audited bodies on the 11 February 2009 with additional matches becoming available later in the year. Participating bodies follow up the matches, as appropriate, and record the outcomes of their investigations in a secure web-based application.
39. The NFI exercise only identified 9 matches relating to the Board, all of which have been investigated and cleared.



# Performance

## Introduction

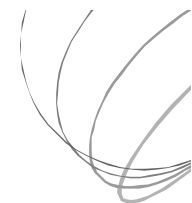
40. In this section we summarise key aspects of the Joint Board's reported performance and provide an outlook on future performance.

## Statutory performance indicators

41. The Joint Board has a statutory duty to collect, record and publish specified performance indicators and, so far as is practicable, ensure they are accurate and complete. The Accounts Commission issue a Direction each year detailing the statutory performance indicators (SPIs) that require to be published and external auditors review the Joint Board's arrangements and return details of the indicators, including an opinion on their reliability, to Audit Scotland headquarters to enable compilation of national reports on performance.
42. We assessed all of the Joint Board's statutory performance indicators as reliable. We present a summary of some of the performance indicators below.
43. In general the Force has maintained the levels of performance from last year, with many of the indicators showing no significant change either way.

### *Complaints and racially motivated incidents – changed indicators*

44. In 2008/09 there were changes to the indicators relating to complaints and racially motivated incidents. The previous complaints indicator looked at the number of complaints per 100 members of the police force. The new indicator breaks it down to complaints about police officers and police staff, and the number of service complaints. The racially motivated incidents indicator now includes more detail by showing the percentage of crimes cleared up, as well as the numbers of racist incidents and racially motivated crimes recorded..
45. Prior year comparable figures have been supplied for the changed indicators enabling performance comparison. The new indicators show the number of service complaints received about the force has dropped to 10 from 21 in 2007/08. The number of complaints about Police officers and staff has also fallen slightly from 165 to 159 in 2008/09. The number of allegations arising from the complaints has however risen from 217 to 260, an increase of 20%.



46. The number of racist incidents recorded has fallen from 141 in 2007/08 to 122 in 2008/09. The number of racially motivated crimes recorded has risen to 94 from 71 in the previous year though this has been accompanied by an increase in the percentage of these crimes cleared up of 84.04% in 2008/09 compared with 76.06% in 2007/08.

### *Drugs offences*

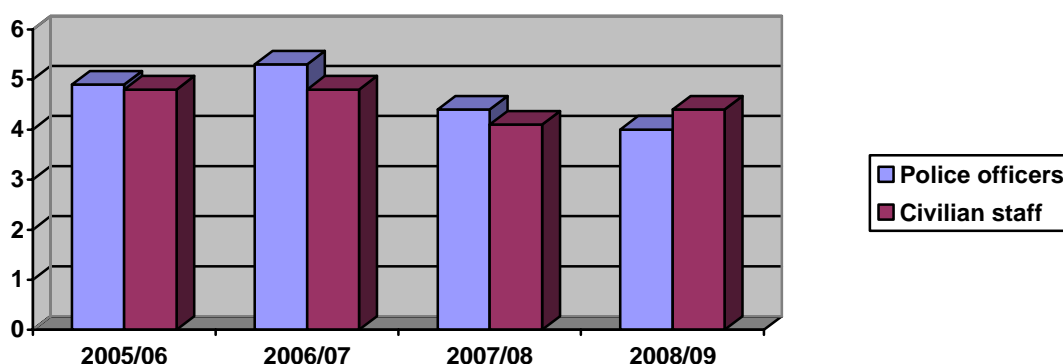
47. The weight of class A drug seizures has fallen from 3.30 kg in 2007/08 to 1.77 kg in 2008/09 and the number of offences has almost doubled from 110 in 2007/08 to 211 in 2008/09. The Policing Plan objective for 2008/09 was to increase drug seizures by 5% but this was not achieved and the Force attributes this to the delay in the analysis of drugs confiscated due to the closure of the Grampian forensic laboratory. The Force anticipates an improvement in 2009/10.

### *Road policing/safety*

48. The number of people killed or seriously injured has fallen slightly from 188 in 2007/08 to 179 in 2008/09 with the number of children killed or seriously injured also down to 6 from 16 in the previous year.

### *Proportion of working time lost due to sickness absence*

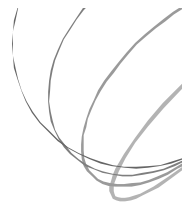
49. The level of absence for police officers has fallen from 4.4% in the previous year to 4.0% in the 2008/09 whilst the civilian staff sickness levels have increased slightly from 4.1% in 2007/08 to 4.4% in 2008/09. The sickness absence levels for the last 4 years are shown in the graph below:





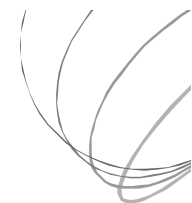
## Best value audit

50. The Local Government Scotland Act 2003 introduced duties of best value, community planning and public performance reporting for all local authorities including police authorities. The Scottish Government issued guidance on the application of best value in the police in 2003 (Police Circular 11/2003) with further guidance issued in 2007. These indicate how police authorities are required to pursue best value in tandem with Chief Constables who are responsible for police operations within their force. Police authorities have a responsibility to secure the maintenance of an efficient and effective police force in their area, to provide strategic direction and achieve an appropriate balance between quality of performance and the cost of that performance. They are expected to make sure that good quality performance information is collected by police forces and reported to them so that they can monitor the performance of the force and hold it to account through the Chief Constable.
51. The Accounts Commission has scrutiny responsibilities in relation to the duty of best value for police authorities but not for Chief Constables and their distinct operational responsibilities. HM Inspectorate of Constabulary for Scotland (HMICS) has powers to examine Best Value in police authorities as well as the performance of the police force and the Chief Constables who are accountable to their authorities and are expected to work in tandem with them to deliver efficient and effective police services. A joint scrutiny exercise by Audit Scotland leading on the Best Value Audit of Northern Joint Police Board and HM Inspectorate of Constabulary leading the inspection of Northern Constabulary is currently underway.
52. In light of the on-going BV audit, this report will not consider progress on some of the governance and performance issues identified in our Annual Audit Plan including the impact of the recent force restructuring, transfer of housing stock and asset management planning as these will be reviewed in more detail and reported in due course as part of the BV audit. Findings from the BV audit will be presented as a joint report for consideration by the Accounts Commission, Scottish Ministers and HMICS and will be published together with the Commission's findings. The report is expected in February 2010.



# Final remarks

53. Attached to this report is an action plan setting out the key risks identified by the audit which we are highlighting for the attention of the Joint Board. The action plan sets out management's response to the identified risks.
  
54. The co-operation and assistance given to us by officers of the Joint Board and the Finance staff at The Highland Council is gratefully acknowledged.



# Appendix A: Action Plan

## Key Risk Areas and Planned Management Action

Key Risk Area	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
1		<p><b>Valuation of specialised properties</b></p> <p>Specialised properties were last revalued using DRC. SORP 2008 explains that DRC should only be used where there is insufficient market based evidence of the use of Existing Use Value.</p> <p><b>Risk: the existing valuation of assets may not comply with the SORP.</b></p>	<p>A valuation of land and building is currently underway and revised values using proper valuation method in line with SORP will be effected in the 2009/10 accounts.</p>	<p>Central Services Finance Manager</p>	<p>Mar 2010</p>
2		<p><b>Operational vehicles register</b></p> <p>The opening figures for cost and accumulated depreciation for operational vehicles in the ledger differ from the fixed assets register by £0.516 million.</p> <p><b>Risk: information on fixed assets included in the financial statements may be incomplete and inaccurate.</b></p>	<p>The differences will be investigated to ensure that they are eliminated and required adjustments are made in the 2009/10 accounts.</p>	<p>Central Services Finance Manager</p>	<p>Mar 2010</p>
3		<p><b>IFRS adoption</b></p> <p>Local authorities will use IFRS with effect from 2010/11 with a requirement to prepare shadow IFRS accounts and WGA pack in 2009/10.</p> <p><b>Risk: IFRS statements are not produced on time</b></p>	<p>Preparatory work has started. Restated opening balances planned for Feb 2010.</p>	<p>Central Services Finance Manager</p>	<p>Mar 2010</p>
4		<p><b>Internal audit plan 2009/10</b></p> <p>Internal audit was unable to deliver its plan fully in 2008/09 and the same may happen in 2009/10.</p> <p><b>Risk: the plan may not be delivered or not within the timescale for the Joint Board to obtain assurances on systems of governance and internal financial control and for us to place reliance in giving our opinion on the</b></p>	<p>There is a bigger contingency this year for unplanned work.</p>	<p>Head of Internal Audit and Risk Management</p>	<p>Mar 2010</p>



Key Risk Area	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
		<i>financial statements.</i>			