SCOTT-MONCRIEFF

EDINBURGH AND GLASGOW

Central Scotland Joint Police Board

Annual Audit Report to Central Scotland Joint Police Board and the Controller of Audit

2005/06

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1 Summary

Governance

- The Joint Board's Best Value and Audit Sub Committee performs the role of the Joint Board's audit committee. Whilst this Committee operates in accordance with audit committee principles as set out in relevant CIPFA guidance a number of improvements have been identified.

- During 2005/06 the Joint Board has made some progress in developing and implementing an overall risk management strategy and risk register. A risk management framework was approved in July 2006. Further developments are however required to ensure comprehensive risk management arrangements exist.

Performance

- Adequate arrangements are in place at the Joint Board to ensure that published statutory performance indicators are accurate and complete.
- A pilot Best Value Audit is currently being undertaken at the Joint Board. This audit is being led by a team of specialist staff from Audit Scotland. Audit Scotland estimates that the findings of this review will be reported to the Joint Board in Autumn 2006.

Finance

- We are pleased to report that in 2005/2006 the Joint Board complied with The Code of Practice on Local Authority Accounting in Great Britain in all material aspects.
- The Joint Board has an accumulated surplus, excluding earmarked reserves, carried forward to 2006/07 of £1.361 million. Under the Police and Fire Services (Finance) (Scotland) Act 2001, Joint Police Boards are allowed to carry forward any money received and remaining unspent at the end of the year up to an annual limit of 3% of funding from police grant and constituent authorities and a total limit of 5% when added to existing accumulated reserves of unspent requisitioned money and police grant. The surplus for the year falls within these limits and is therefore available to be carried forward.
- In overall terms we found the Joint Board's accounting systems and internal financial controls to be largely operating effectively.

Conclusion

This report concludes the 2005/06 audit of Central Scotland Joint Police Board. We have performed our audit in accordance with the Code of Audit Practice and Statement of Responsibilities published by Audit Scotland. Subject to the weaknesses identified in this report, we are satisfied that Central Scotland Joint Police Board has properly discharged its duties in accordance with the Statement of Responsibilities.

This report has been discussed and agreed with the Treasurer and Director of Finance & Resources and has been prepared for the sole use of Central Scotland Joint Police Board, the Controller of Audit and Audit Scotland.

We would like to thank all members of Central Scotland Joint Police Board management, staff and members who have been involved in our work for their co-operation and assistance during our audit visits.

Scott-Moncrieff
September 2006

2 Introduction

2.1 Audit Framework

The Accounts Commission for Scotland is a statutory independent body which, through the audit process, promotes the highest standards of financial stewardship and public accountability in local authorities and assists them in achieving value for money. Audit Scotland is an independent statutory body that provides the Accounts Commission with the services required to carry out their statutory functions. Audit Scotland has prepared a Code of Audit Practice, which sets out the way in which auditors should carry out their functions, and a Statement of Responsibilities which explains where the responsibilities of the auditor begin and end. The Accounts Commission has appointed Scott-Moncrieff as auditors of Central Scotland Joint Police Board (the Joint Board) for the 5 year period 2001/2002 to 2005/2006.

2.2 Responsibilities of Central Scotland Joint Police Board

The Joint Board is accountable to the public for the conduct of public business and the stewardship of funds under its control. The Joint Board is therefore responsible for:

- Establishing proper corporate governance arrangements
- Maintaining proper accounting records
- Preparing the financial statements
- Safeguarding assets
- Taking reasonable steps for the prevention and detection of fraud and other irregularities
- Managing its affairs to secure the economic, efficient and effective use of resources
- Publishing statutory performance indicators
- Making arrangements to secure best value

2.3 Responsibilities of Auditors

Our responsibilities as external auditors to the Joint Board, which are significantly greater than those of auditors in the private sector, are derived from statute (principally the Local Government (Scotland) Act 1973) and from the Code of Audit Practice.

Our work can be classified under the following three headings: performance audit, governance audit and financial audit. The main objective for each of these areas is summarised as follows:

Audit Area	Audit Objective
Governance Audit	To review and report on the Joint Board's corporate governance arrangements in relation to: • The prevention and detection of fraud and corruption • Standards of conduct, accountability and openness • The Joint Board's financial position • The Joint Board's review of its systems of internal financial control, including risk management
Performance Audit	To review and report on the Joint Board's arrangements for collecting, recording and publishing performance information
Financial Audit	To provide an opinion on the financial statements and any related grant claims.

2.4 Audit Reporting

This annual report summarises all of our work during the year and highlights the key issues we have identified under the headings of governance, performance and finance. The action plan in section 6 details all of the significant recommendations we have made with regard to the findings in this report, along with management's responses.

3 Governance

3.1 Corporate Governance Framework

3.1.1 Governance Arrangements

The Code of Audit Practice gives the external auditor a responsibility to review and, where appropriate, report findings on the audited body's corporate governance arrangements. In discharging this responsibility we carried out a review of the Joint Board's governance arrangements during 2005/2006. This review included consideration of the Joint Board's risk management arrangements, codes of conduct and procedures for the prevention and detection of fraud and irregularity. Our work in this area concluded that whilst the Joint Board's corporate governance arrangements are fairly robust there are a number of areas with scope for improvement which, if addressed, would bring the Joint Board's corporate governance regime in line with best practice. The key findings from our work are outlined below:

3.1.2 Audit Committee Principles

During 2004/2005 the Best Value and Audit Sub-Committee considered the extent to which the Committee comply with the CIPFA publication 'Audit Committee Principles in Local Authorities in Scotland – A Guidance Note'. The guidance note identifies three fundamental principles which local government audit committees should aspire to and provides guidance on how these principles can be delivered in practice. The Committee's review identified a number of potential improvements and agreed that further reports would be presented to members on the development of the audit committee principles. We noted during our 2005/06 review that no further reports have been presented to the Best Value and Audit Sub-Committee.

As part of our 2004/05 review we also considered the work of the Joint Board's Best Value and Audit Sub-Committee in relation to CIPFA's guidance note. Overall we concluded that the Joint Board's Best Value and Audit Sub Committee was largely able to deliver the audit committee principles set out in the guidance. We did, however, identify a number of areas with scope for further development. Our 2005/2006 review assessed the progress that the Joint Board has made in addressing these issues. Our findings are noted below:

- Our 2004/2005 review noted that the Best Value and Audit Sub Committee did not provide sufficient challenge and/or review of the Joint Board's risk management arrangements. We have noted that during 2005/06 the Best Value and Audit Sub Committee has not received any reports or challenged the Joint Board on implementing its risk management framework. An audit committee should be in a position to provide independent assurance on the adequacy and effectiveness of the Joint Board's risk management arrangements. We understand that internal audit has recently carried out a review of the Joint Board's risk management arrangements and that these are to be presented to the Best Value and Audit Sub Committee in September 2006. We would encourage internal audit to undertake an annual assessment of the Joint Board's risk management arrangements. The findings of such an exercise will provide the Committee with an objective basis on which to conclude on the adequacy of the risk framework and the associated control environment. ***Recommendation 1***

- In 2004/05 we commented that the Best Value and Audit Sub Committee did not meet with the external and internal auditors during the year without the presence of management. It is generally regarded as good practice for audit committees to meet with internal and external audit at least once during the annual cycle of meetings in the absence of other officials to discuss issues of a confidential or sensitive nature. This has yet to be implemented. ***Recommendation 2***

Since our previous review of the Joint Board's corporate governance arrangements CIPFA has issued a position statement on audit committees in local government and associated guidance which reflects the views of CIPFA's Audit Panel on the role of audit committees. The statement sends the following messages:

1. The core functions of an audit committee are:

   - To consider the effectiveness of the authority's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.
   - Seek assurances that action is being taken on risk-related issues identified by auditors and inspectors.
   - Be satisfied that the authority's assurance statements, including the Statement on Internal Control properly reflect the risk environment and any actions required to improve it.
   - Approve (but not direct) internal audit's strategy, plan and monitor performance.
   - Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.
   - Receive the annual report of the head of internal audit.
   - Consider the reports of external audit and inspection agencies.
   - Ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.
   - Review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

2. Good audit committees will be characterised by:

- A strong chair – displaying a depth of skills and interest.
- Unbiased attitudes – treating auditors, the executive and management equally.
- The ability to challenge the executive when required.
- A membership that is balanced, objective, independent of mind, and knowledgeable.
- The structure and administration of the audit committee should promote an audit committee which:
- Is independent of the executive and scrutiny functions.
- Has clear reporting lines and rights of access to other committees/ functions.
- Meets regularly – about four times a year, and has a clear policy on those items to be considered in private and those to be considered in public.
- Meets privately and separately with the external auditor and head of internal audit.
- Includes, as regular attendees, the chief finance officer or deputy, head of internal audit and appointed external auditor and relationship manager. These officers should also be able to have access to the committee, or the chair, as required. The committee should have the right to call any other officers or agencies of the council as required.
- Is properly trained to fulfil its role.

We have assessed the Joint Board's audit committee arrangements against they key messages and can conclude that the arrangements overall embrace best practice as set out in CIPFA's position statement. We would however encourage the Joint Board to consider the following:

- At present a formal training and development programme for audit committee members does not exist. We understand that members currently receive training by way of presentations, as and when required. A formal training and development programme would ensure each member is furnished with the appropriate skills to fulfil their audit committee responsibilities. This programme should be linked to a training needs analysis for each member. ***Recommendation 3***

- The Best Value and Audit Sub-Committee should undertake a regular assessment of its performance using the above criteria to ensure it continues to deliver best practice audit committee principles. ***Recommendation 4***

3.2 Risk Management Arrangements

An important feature of a robust system of internal control is a developed and integrated approach to risk management. Effective risk management will deliver an appropriate balance between risk and control, more effective decision making, better use of limited resources and greater innovation.

Our 2004/2005 review of the Joint Board's risk management arrangements concluded that whilst the Joint Board had in place a number of measures in place to assess and manage risk they had yet to develop and implement a risk management strategy and risk register which encompasses the Joint Board as a whole.

Our annual review of the Joint Board's risk management arrangements is informed by the following model which summarises the key stages of developing a robust risk management framework. We have used this model to assess the maturity of the Joint Board's risk management arrangements.

Risk Management Framework

The following analysis provides our assessment of the progress the Joint Board has made and the areas where scope for further development exists:

Risk management strategy and structure

Risk management strategy and structure involves formalising roles and responsibilities, establishing and communicating policy and developing risk management standards. In July 2006, the Force Executive approved its risk management framework and procedures. A Corporate Risk Management Group has been established, comprising of representatives from Finance and 3 Chief Superintendents. We understand that this group is responsible for driving risk management forward within the Joint Board.

During the year, work has been ongoing in relation to business continuity. The Corporate Risk Management Group intends to use the information arising from the work on business continuity to inform the overall risk register for the Joint Board. Workshops were held for managers within each department as part of the business continuity project. It is intended that these managers will become the risk management co-ordinators within the Joint Board.

Overall we believe that the Joint Board has made some progress towards the implementation of an overall risk management strategy and risk register. Based on the progress made to date, however we have identified the following issues which, if addressed, would further strengthen the Joint Board's position in this area:

- A detailed action plan does not currently exist which identifies how each stage of the risk management framework will be delivered. This should include an associated timescale and the individual responsible for delivering each key milestone. ***Recommendation 5***

- The roles and responsibilities of the Corporate Risk Management Group and risk management co-ordinators have not been clearly defined and included in the risk management framework document. As a result there is a risk that individual officers are not aware of their responsibilities in relation to the risk management process. ***Recommendation 6***

- Risk management is critical to the effective overall management of the Joint Board. Risk management should therefore be regarded as a core management competency which the risk management co-ordinators should possess or develop. We are not aware of a formal training programme being in place which will support the co-ordinators in developing/maintaining the required level of competency. ***Recommendation 7***

Risk Analysis

This stage focuses management attention on developing a common understanding of the key strategic and operational risks of the organisation and identifying those of highest importance i.e. those that are most likely to occur and/or have the greatest impact.

To date, the Joint Board's risk analysis work is currently restricted to the work carried out by individual sections such as Finance, Human Resources and IT. This work however is not collated into a risk register which would provide an overall risk profile of the Joint Board. ***Recommendation 8***

Control evaluation and optimisation

Having identified a number of significant risks, it is important to appraise and validate the effectiveness of current control strategies and initiate action to address deficiencies. Specific and prioritised action plans for remedial work will be required. It is also important that individuals are assigned responsibility for the management of each risk and the operation of key controls.

Monitoring

The responsibility for monitoring risks and the effectiveness of the control environment remains that of management. In addition to identifying the risks and their respective controls, management should consider a ‘how do I know it’s working?’ approach to risk management. Management may rely on representations from those individuals responsible for the management of each key risk however ultimately, key performance indicators should be established and measured to allow management to monitor the effectiveness of the risk management strategies. Areas of significant risk should feature in internal audit work plans to provide an independent source of assurance on the effectiveness of risk mitigating actions.

Continuous improvement

The process, risks and controls should be reviewed periodically in order to remain effective. This is particularly important to ensure emerging risks are identified and mitigated, impacts of any changes in the control environment are acted upon, and ongoing organisational improvement opportunities (i.e. streamlining of controls) are identified and implemented.

3.3 Codes of Conduct

Propriety requires that public business is conducted with fairness and integrity. This includes avoiding personal gain from public business, being even-handed in the appointment of staff, letting contracts based on open competition and avoiding waste and extravagance. In 2005/06, our work in this area included a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and complying with national and local Codes of Conduct. We also considered controls over registers of interests. Overall we concluded that controls at the Joint Board were generally adequate in relation to standards of conduct.

3.4 Internal Audit

During the course of our audit we carry out an assessment of the internal audit function to assess its effectiveness and ascertain whether specific areas of internal audit work can be relied upon to inform the external audit of the Joint Board’s financial statements.

Our review concluded that the Joint Board maintains an effective internal audit function and that we were able to rely on the work of internal audit during 2005/06 in the following areas:

- Payroll
- Income and Banking
- Treasury Management

3.5 Fraud, Irregularity and Corruption

The integrity of public funds is at all times a matter of concern. As external auditors we are required to consider the arrangements made by management for the prevention and detection of fraud and irregularities.

During 2005/06 we have reviewed the controls for the prevention and detection of fraud, irregularity and corruption. Our review concluded that controls at the Joint Board were generally adequate to prevent and detect fraud and other irregularities. During the year however there was a breach of controls in place in Fleet Management. This has prompted a comprehensive review of all processes in this area.

As part of our review we also review frauds reported by auditors that are occurring in other public bodies and consider whether appropriate controls are in place to prevent such frauds occurring at the Joint Board. One report reviewed related to the misuse of fuel cards and recommendations were made including the implementation of maximum values that could be charged on fuel cards. We noted during our review that the Joint Board does not have a similar control in place. We therefore recommend that the Joint Board consider implementing maximum limits on their fuel cards. ***Recommendation 9***

3.6 System of Internal Financial Control

Local Authorities are required to include within their statement of accounts a statement on the system of internal financial control. This statement sets out the framework within which financial control is managed and reviewed and the main components of the system including the arrangements for internal audit.

In previous years we have assessed the Joint Board's compliance against this framework. As part of our 2005/06 audit we updated our assessment and followed up recommendations made in previous years. Our review concluded that the system in place at the Joint Board is generally robust. However we did identify the following issue where scope for further development exists. In 2004/05 we reported that existing internal financial procedures require to be updated. Since our 2004/05 audit, the Joint Board has made some progress in updating procedures in relation to debtors and creditors. The comprehensive updating of procedures has still to be completed. ***Recommendation 10***

The 2005/06 statement of internal financial control has been informed primarily by the work of internal and external audit, and assurance statements and representations from the Chief Constable, Director of Finance and Resources and Chief Superintendents.

The Treasurer has concluded that the Joint Board's system of internal financial control is largely effective. The statement identifies certain areas where internal financial control can be improved and provides assurance that appropriate plans are in place to address these issues.

As part of our audit work we are required to review the statement on the system of internal financial control and assess whether it is consistent with our understanding of the Joint Board's internal financial control framework. We have reviewed the sources of assurance provided to the Treasurer in making his assessment. The Joint Board's statement of internal financial control is consistent with our knowledge and understanding of the financial control framework operating at the Joint Board.

4 Performance

4.1 Statutory Performance Indicators

The Local Government Act 1992 set out the requirement for the Joint Board to prepare and publish performance indicators. In meeting this duty, the Joint Board must ensure that it:

- establishes systems and procedures to ensure that the required information is gathered;
- undertakes checks to ensure that, as far as practicable, the information gathered for publication is accurate and complete;
- arranges to keep all working papers and any other sources which may be examined by appointed auditors, and is able to make these available on request; and
- maintains a publicly available record of the reported information.

As external auditors we have a statutory duty to ensure that the Joint Board has made such arrangements for collecting, recording and publishing performance data as are required to ensure as far as practicable that published information is accurate and complete. We can confirm that adequate arrangements have been put in place in 2005/06 to ensure that published information is accurate and complete.

4.2 Best Value

From April 2003, police authorities assumed new statutory responsibilities (within The Local Government in Scotland Act 2003) to pursue best value in the provision of their services. The Accounts Commission agreed that Audit Scotland should initiate a best value audit of a police authority in 2005/06.

Central Scotland Joint Police Board was selected as the pilot authority at which a best value study would be undertaken in 2005/06. A team of specialist staff from Audit Scotland carried out this pilot study, together with a member of our audit team. The review commenced at the start of 2006 and Audit Scotland estimates that the findings from this pilot review will be issued to Central Scotland Police in Autumn 2006.

4.3 Police Call Management

Police call management is an area of significant expenditure with a high impact on members of the public and other service users. How calls are managed plays a major role in crime management.

During 2005/06, Audit Scotland has initiated a review of police call management in Scotland. The overall aim of the study is to review the performance of the Scottish police forces in relation to call management and to promote improvement in the service. The study covers all eight police forces in Scotland and links to work carried out by both HMIC Scotland and HMIC England and Wales.

This study is being managed centrally by Audit Scotland's Performance Audit Group (PAG). The fieldwork and analysis is expected to be completed by October 2006 with the overall outcomes from the study to be published nationally mid 2007.

5 Finance

5.1 Audit Opinion

Our audit report included on page 28 of the annual accounts is addressed to the Members of the Joint Board and the Accounts Commission for Scotland. The report was issued on 22 September 2006 and is unqualified.

5.2 Accounts Timetable

Scottish local authorities are required under Regulation 4 of the Local Authority Accounts (Scotland) Regulation 1985 to submit a copy of an abstract of their accounts to the Controller of Audit by 30 June. We are pleased to note that the Joint Board adhered to this requirement by lodging accounts with the Controller of Audit on 26 June 2006.

5.3 Summary Financial Position

5.3.1 Revenue Expenditure

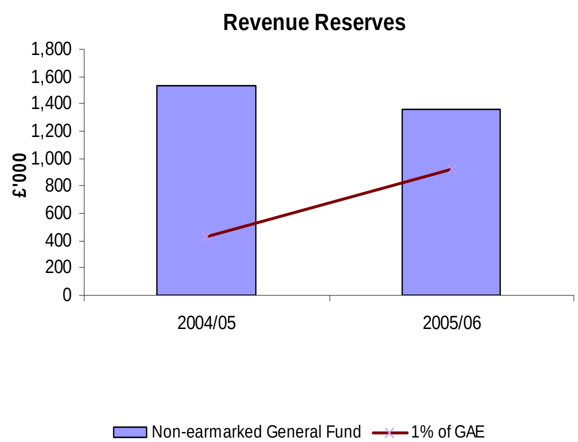
The Joint Board's final net revenue expenditure was £48.002 million against budgeted net expenditure of £49.027 million. The main reasons for the under spend against budget related to the Joint Board receiving additional income in the year, including income from Operation Sorbus and higher than budgeted secondment income and rental income. As a result of this underspend, the Joint Board achieved a surplus of £0.183 million in 2005/2006.

An analysis of the Joint Board's accumulated surplus at 31 March 2006 is presented below:

	2005 £'000	2006 £'000
Earmarked - Commuted Sums	997	1,352
Non Earmarked - Other Reserves	1,533	1,361
Total	**2,530**	**2,713**

The analysis above indicates that the Joint Board has earmarked reserves of £1.352 million which leaves the Joint Board with a non-earmarked reserve of £1.361 million. Under the Police and Fire Services (Finance) (Scotland) Act 2001, Joint Police Boards are allowed to carry forward any money received and remaining unspent at the end of the year up to an annual limit of 3% of funding from police grant and constituent authorities and a total limit of 5% when added to existing accumulated reserves of unspent requisitioned money and police grant. LASAAC guidance advises that the amount earmarked for commuted sums should be excluded from the surplus when measuring the results against these prescribed carry forward limits. The accumulated surplus, excluding earmarked amounts, falls within these limits and is therefore available to be carried forward.

5.3.2 Financial Strategy



The Joint Board agreed in 2004/05 to strive towards a long term target of revenue reserves equivalent to the level of 1% of Grant Aided Expenditure (GAE). The chart shows that at 31 March 2006 the Joint Board had non-earmarked reserves which equated to 2.9% of 2005/06 GAE which is significantly above the long term target of 1%.

In 2004/05, the Joint Board agreed to make available an additional £0.500 million to enable the recruitment of additional officers. It was agreed that this would be paid back to the constituent authorities in 2005/06 and 2006/07 in equal instalments. In 2006/07 we understand that a substantial proportion of the reserves are to be applied to sustain additional police officer recruits (£0.850 million) and enable the return of the final payment to the constituent authorities (£0.250 million). Based on the 2005/06 level of non-earmarked reserves this would reduce the level of reserves to 0.75% of 2006/07 GAE.

5.3.3 Capital Expenditure

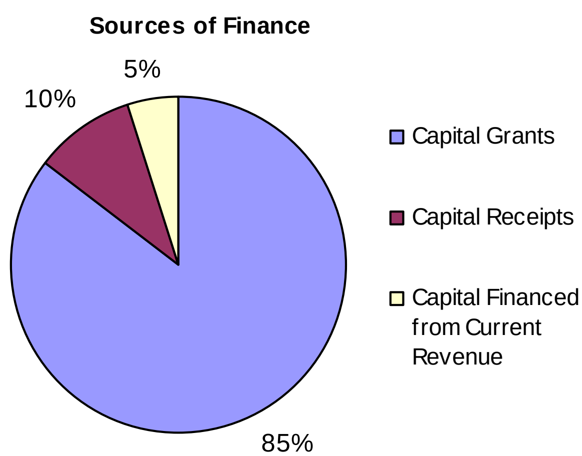
In February 2005 the Joint Board approved a capital budget of £1.672 million. During the year this budget was revised to include elements of expenditure carried forward from 2004/05 on the Falkirk Replacement and Airwave Projects. The revised plan was set at £2.324 million.

Capital budget monitoring reports presented to the Joint Board in February 2006 reported actual expenditure to 31 December 2005 as £0.822million. This represented 35% of the approved budget and 46% of the projected outturn. The Joint Board's final outturn showed slippage against the capital budget of £0.456million.

The main reasons for slippage against the budget include delays in the Airwave Project and the Maddiston Project and continuing negotiations in relation to some of the final aspects of the new Falkirk Police Station. A large proportion of the slippage is considered to be outwith the control of the Joint Board. This includes the slippage on the Airwave Project which is a national project and is dependent on the timescales set nationally.

The Joint Board actively review and manage any underspend identified on the capital budget. For example, to minimise the underspend during 2005/06, the Joint Board agreed to bring forward expenditure on vehicle replacement from the 2006/07 budget.

During the year, the Joint Board spent £1.846 million on capital items. This was financed by capital grant, capital financed from current revenue and capital receipts. No prudential borrowing was required in the year.



From 1 April 2004 new arrangements were implemented for allocating capital funding to the police authorities. The former section 94 consent allocations were converted to cash grants under section 37 of the Local Government in Scotland Act 2003. In 2005/06, Central Scotland Police received £1.494 million in capital grants from the Scottish Executive Justice Department. Police authorities are able to carry forward any under spend on their capital grant up to an amount not exceeding 5% of the annual allocation for the year (including capital receipts utilised) or with the express consent of Scottish Ministers up to an amount not exceeding 10% of the allocation. In 2005/06, the Joint Board utilised their full grant allocation.

5.4 Matters Arising from the Audit of the Financial Statements

5.4.1 Fixed Assets

The consolidated balance sheet shows that the Joint Board's portfolio of tangible fixed assets was valued at over £36.955 million as at 31 March 2006. During the course of our audit we carried out detailed testing to determine whether the assets of the Joint Board were fairly presented and accounted for in accordance with the Code of Practice on Local Authority Accounting (the SORP). We identified the following weaknesses in the Joint Board's approach to fixed asset accounting:

Component Accounting

Some fixed assets require substantial expenditure every few years for major refits, or the refurbishment, replacement or restoration of major components. Different components of an asset may have significantly different useful economic lives and, in order that the depreciation profile of the asset more accurately reflects the actual consumption of the asset's economic benefits, it is preferable to treat each component separately for depreciation purposes.

Where each component of a fixed asset is depreciated over its individual useful economic life, subsequent expenditure incurred in replacing or renewing a component should be accounted for as an addition to the fixed asset. However, where a fixed asset is not treated as several different components, the cost of replacing or renewing parts of the asset should be treated as revenue expenditure.

During 2005/06, the Joint Board incurred significant expenditure on the Stirling Cells Refurbishment. On review of the expenditure incurred on this project a number of items were identified for which it would have been more appropriate to identify as a component of the main asset. Where these items have not been accounted for as a component of the main asset there is a risk that the replacement or renewal of these in the future may be regarded as revenue expenditure. We therefore recommend that the Joint Board consider implementing component accounting for future capital projects. ***Recommendation 11***

Impairment Review

To ensure that fixed assets are not carried in the financial statements at more than their current value, the Joint Board should carry out an impairment review on their asset base. Impairment reviews are however only necessary if events or changes in circumstances indicate that the carrying amount may not be fully recoverable or where the estimated remaining useful life of the fixed asset exceeds 50 years.

During our review we noted that the Joint Board does not carry out impairment reviews for those assets where the remaining useful life of the asset exceeds 50 years. As a result there is a risk that the Joint Board has overstated their fixed assets in the financial statements. We would strongly encourage the Joint Board to perform annual impairment reviews on assets where the estimated remaining useful life of the asset exceeds 50 years to ensure compliance with the SORP. ***Recommendation 12***

Capital Grants

During the year, the Joint Board received £1.494million in capital grants. In accordance with the SORP these amounts were credited to a government grants deferred account. The balance on the deferred account should be released to revenue on the same basis, in terms of method and period, as the depreciation charged on the asset financed by the grant.

Our audit testing highlighted that whilst the Joint Board is amortising the grant, the period over which the amortisation is based does not equate to the remaining life of the asset but the life of the asset at the time of revaluation. As a result, if the asset were to be fully depreciated there would still remain an element of grant to be written off. Whilst this was immaterial to the financial statements we recommend that the Joint Board revisit their approach to the amortisation of capital grants to ensure these are written off over the remaining useful life of the asset which has been financed by the grant. ***Recommendation 13***

Asset Register

Asset registers are records of all fixed assets whose value is material or significant to the organisation. In 1993, CIPFA developed a new system of capital accounting designed to improve the quality of financial reporting and help authorities manage their assets efficiently and effectively. As part of the new system, authorities were required to compile an asset register and value all land and property with a material value.

At the Joint Board, the assets are recorded on a number of spreadsheets split between the main asset categories including land and buildings, equipment and vehicles. These spreadsheets are used in the preparation of the annual financial statements. Information on additions, disposals and adjustments in the valuation of its land and buildings have to be manually input into these spreadsheets. As such, this manual exercise exposes the Joint Board to the risk of human error as key changes in the Joint Board’s property portfolio could be miskeyed or misplaced. We recommend that the Joint Board review their arrangements for recording their assets. ***Recommendation 14***

Donated Assets

Where donated assets have been received, their appropriate value should be recorded in the balance sheet as an addition to fixed assets. They should also be recorded in the asset register. In 2003 the Underwater Unit officers at the Joint Board secured new transport in the shape of a former Blood Transfusion bus, which was donated free of charge. The cost to modify this asset into a purpose built mobile diving office was recorded in the asset register but an initial assessment of the value of the donated asset was not carried out and recorded in the register. Whilst this would not result in a material misstatement in the 2005/06 Abstract of Accounts the Joint Board should ensure the value of this asset is reassessed and included in the financial statements at the appropriate value. ***Recommendation 15***

5.4.2 Prudential Indicators

The Local Government in Scotland Act 2003 repealed section 94 controls over joint boards and local authority capital expenditure. These controls were replaced from 1 April 2004 with a prudential regime which enables joint boards and local authorities to invest so long as their capital spending plans are affordable, prudent and sustainable. Integral to the regime is 'The Prudential Code for Capital Finance in Local Authorities' (the Code), developed by CIPFA, which sets out prudential indicators that local authorities must use. Regulations introduced under the Act require that joint boards and authorities have regard to the Code.

As part of our 2004/05 audit we assessed the arrangements that the Joint Board had in place for ensuring compliance with the prudential code and regime generally. Overall we noted that the Joint Board had not prepared prudential indicators. Whilst the Joint Board, at that time, did not intend to utilise prudential borrowing we encouraged the Board to establish prudential indicators. We are pleased to report that indicators have now been established and were approved by the Joint Board in February 2006 for the following three years.

In 2004/05 we also reported that the Prudential Code places significant new responsibilities on the Treasurer and Director of Finance and Resources. It was noted however that these arrangements had not been formalised within either the scheme of delegation or the standing financial regulations of the Joint Board. We understand that the scheme of delegation and standing financial regulations are still to be updated. ***Recommendation 16***

5.4.3 Group Accounts

The 2005 Code of Practice on Local Authority Accounting in the UK contains modified group accounting requirements which require local authorities to consider all their interests, including those in other statutory bodies, and to prepare a full set of group financial statements where they have material interests in subsidiaries, associates or joint ventures.

During 2005, the Joint Board examined its relationships with third parties to determine the subsidiary, associated and joint venture undertakings which would require consolidation into the financial statements of the Joint Board. This exercise concluded that the Joint Board does not currently have any financial relationships with third party organisations which constitute material interests in subsidiaries, associates or joint ventures. The Joint Board has therefore not prepared group accounts in 2005/06.

6 Action Plan

Our action plan details the key weaknesses and opportunities for improvement that we have identified during 2005/06. To assist the Joint Board in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated. The rating structure is summarised as follows:

Priority 1	High risk, material observations requiring immediate action;
Priority 2	Medium risk, significant observations requiring reasonably urgent action;
Priority 3	Low risk, minor observations which require to be brought to the attention of management.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist.

Paragraph Reference	Recommendation	Responsible Officer	Management Comments	Agreed Completion Date
3.1.2	1. Internal audit should undertake an annual assessment of the Joint Board's risk management arrangements. The findings of such an exercise should be presented to the Best Value and Audit Sub Committee with an objective basis on which to conclude on the adequacy of the risk framework and the associated control environment. **Priority 2**	Internal Audit Manager	It is agreed and indeed an annual assessment has already been planned.	May 2007
3.1.2	2. It is generally regarded as good practice for audit committees to meet with internal and external audit at least once during the annual cycle of meetings in the absence of other officials to discuss issues of a confidential or sensitive nature. We recommend that this arrangement be introduced to the annual cycle of Best Value and Audit Sub Committee meetings to ensure sufficient opportunity is given to discuss issues of internal and/or external audit concern. **Priority 2**	Clerk to the Joint Board	We accept this as good practice and agree to implement this recommendation.	March 2007

Paragraph Reference	Recommendation	Responsible Officer	Management Comments	Agreed Completion Date
3.1.2	3. The Joint Board should ensure that a specific training and development programme is in place for all audit committee members. This programme should be linked to a training needs analysis for each member. **Priority 2**	Clerk to the Joint Board	We accept this as good practice and agree to implement this recommendation.	March 2007
3.1.2	4. On an annual basis the Best Value and Audit Sub Committee should undertake a formal assessment of its effectiveness. Effectiveness should be assessed in terms of the audit committee's ability to fulfil its remit and an assessment of its performance against best practice as set out in CIPFA's position statement. **Priority 3**	Clerk to the Joint Board	We accept this as good practice and agree to implement this recommendation.	March 2007

Paragraph Reference	Recommendation	Responsible Officer	Management Comments	Agreed Completion Date
3.2	5. The Corporate Risk Management Group should establish a detailed action plan which identifies how each stage of its risk management framework will be delivered, the associated timescale and individual responsible. **Priority 1**	Director of Finance & Resources	We agree that a detailed action plan would enhance the risk management process.	December 2006
3.2	6. The roles and responsibilities of the Corporate Risk Management Group and risk management co-ordinators should be defined and included in the risk management framework document. **Priority 1**	Director of Finance & Resources	We agree that a clearer definition of these roles and responsibilities would enhance the risk management framework.	December 2006
3.2	7. A formal training programme should be developed to support risk management co-ordinators in developing/maintaining the required level of competency. **Priority 2**	Director of Finance & Resources	We agree that a formal training programme for the risk management co-ordinators would enhance the risk management process.	March 2007

Paragraph Reference	Recommendation	Responsible Officer	Management Comments	Agreed Completion Date
3.2	8. The Joint Board risk analysis work should be drawn together into a comprehensive risk register. **Priority 2**	Director of Finance & Resources	A comprehensive risk register is already being created.	December 2006
3.4	9. The Joint Board should consider implementing maximum limits on their fuel cards. **Priority 3**	Director of Finance & Resources	We agree that a maximum limit would provide a further control mechanism.	October 2006
3.6	10. The Joint Board should ensure that their internal financial procedures are updated. **Priority 3**	Director of Finance & Resources	We agree that the process of updating the financial procedures should be continued, to incorporate all key areas.	December 2006
5.4.1	11. We therefore recommend that the Joint Board consider implementing component accounting for future capital projects. **Priority 2**	Finance Manager	We agree that component accounting should be implemented.	March 2007

Paragraph Reference	Recommendation	Responsible Officer	Management Comments	Agreed Completion Date
5.4.1	12. We would strongly encourage the Joint Board to perform annual impairment reviews on assets where the estimated remaining useful life of the asset exceeds 50 years to ensure compliance with the Statement of Recommended Practice. **Priority 2**	Finance Manager	We agree that such impairment reviews should be carried out and this will be incorporated into the year end accounts process.	March 2007
5.4.1	13. We recommend that the Joint Board revisit their approach to the amortisation of capital grants to ensure these are written off over the remaining useful life of the asset which has been financed by the grant. **Priority 3**	Finance Manager	We agree that capital grants should be amortised over the remaining useful life of assets and this will be incorporated into the year end accounts process.	March 2007
5.4.1	14. The Joint Board should revisit its arrangements for recording fixed assets. **Priority 2**	Finance Manager	We agree that arrangements for recording fixed assets can be improved and this will be incorporated into the year end accounts process.	March 2007

Paragraph Reference	Recommendation	Responsible Officer	Management Comments	Agreed Completion Date
5.4.1	15. The Joint Board should ensure that all donated assets are recorded in the asset register at their appropriate value when received. **Priority 2**	Finance Manager	We agree that al donated assets should be so recorded and this will be incorporated into the year end accounts process.	March 2007
5.4.2	16. The Joint Board should ensure that the responsibilities arising out of the prudential code are formalised within the financial regulations when they are next reviewed. The responsibilities therein can subsequently be delegated to the appropriate officers within the Joint Board through an update of the scheme of delegation. **Priority 2**	Director of Finance & Resources	We agree that the appropriate aspects of the prudential code should be incorporated within the financial regulations.	May 2007

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