

Lothian & Borders Police Board

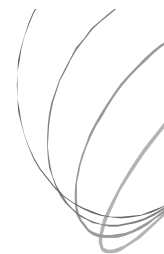
Report to Members on the 2005/06 Audit

October 2006



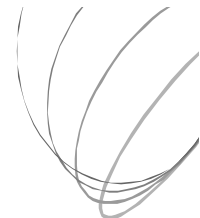
Audit Scotland, on behalf of the Accounts Commission for Scotland, is responsible for:

- providing independent reports to the Commission and the wider public on how public money is spent, what it achieves and what improvements can be made
- providing independent reports to public sector bodies on their finances, their corporate governance and how they manage their performance and secure value for money
- providing an independent opinion on whether the annual financial statements of public sector bodies have been prepared in accordance with statutory requirements



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Key Messages

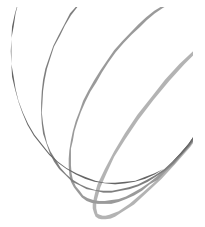
In 2005/06 we have audited the financial statements and looked at aspects of performance and governance within Lothian & Borders Police Board. This report sets out our main findings. Overall, we found the financial stewardship of Lothian & Borders Police Board during the year to be satisfactory. This report sets out our key findings and outcomes from the audit are highlighted below:

- We have given an **unqualified** audit opinion on the financial statements for 2005/06;
- Final accounts preparation procedures and working papers were generally good, although some changes were made as a result of the audit;
- Balances held at 31 March 2006 were in line with the Board's reserves strategy;
- Many aspects of a sound corporate governance framework are in place, although work needs to continue to fully embed risk management processes within the Board;
- A corporate anti-fraud policy is in place, supported by a fraud response plan;
- Internal Audit concluded that reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal control system in the year to 31 March 2006;
- The Board complies with the requirements of the Prudential Code and has developed an Asset Management Plan. Work is currently underway in order that the Board can fully demonstrate a robust, affordable and sustainable approach to capital planning in the longer term;
- Internal audit have confirmed that all the 2003 HMIC inspection recommendations have now been implemented;
- All statutory performance indicators were assessed as reliable.

Key issues for the Board in the future include:

- the increasing cost of pensions;
- financial reporting changes introduced by the 2006 SORP;
- the need to continue developments in relation to governance arrangements, including improved medium to long term financial planning and the development of a robust asset management planning process;
- the need to meet national targets for the reduction in serious violent crimes and to improve the clear up rate for serious violent crimes and housebreaking.

Detailed action plans covering the issues raised during the audit have been discussed with management during the year. Key issues for the attention of members are outlined in the Action Plan included in this report. The cooperation and assistance given to us by Board members and staff over the five years of our appointment is gratefully acknowledged.



Introduction



1. The members and officers of the 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 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 Board has adequate corporate 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 mis-statement, error, fraud or corruption;
 - the Board has proper arrangements for securing best value in its use of resources and is complying with its community planning duties;
 - arrangements have been made to collect, record and publish statutory performance information.

2. This report summarises the most significant issues arising from our work during 2005/06. More detailed reports to management, including agreed action plans, have also been submitted to officers throughout the year.

Financial statements

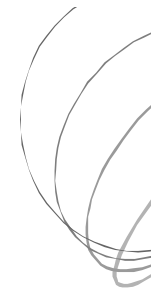


Auditor's report

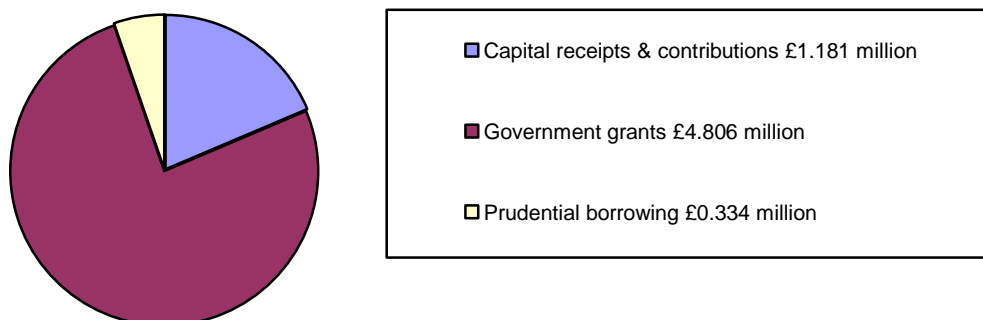
3. We have given an **unqualified** opinion on the financial statements of Lothian & Borders Police Board for 2005/06, concluding that:
 - the financial statements present fairly, in accordance with applicable laws and regulations and the 2005 SORP, the financial position of the Board as at 31 March 2006 and its income and expenditure for the year then ended; and
 - the financial statements have been prepared in accordance with the Local Government (Scotland) Act 1973.
4. The Board's balance sheet has an excess of liabilities over assets of £1,280 million due to the accrual of pension liabilities in accordance with accounting standards. Auditing standards require auditors to consider an organisation's ability to continue as a going concern when forming an opinion on financial statements. One of the indications that may give rise to going concern considerations is an excess of liabilities over assets.
5. The Foreword to the Report and Accounts outlines the Treasurer's view that it has been considered appropriate to adopt a going concern basis for the preparation of the financial statements as the accounting requirements for pensions do not impact on the underlying basis for meeting the Board's current and ongoing liabilities. Future pension liabilities will be met, as they fall due, by government grant and contributions from constituent authorities in the normal way. We are satisfied that the process the Board has undertaken to consider going concern is reasonable.

Financial position

6. The Board's net revenue expenditure amounted to £188.134 million in 2005/06 and was met by government grants and constituent authorities' contributions of £187.366 million, resulting in a deficit for the year of £0.768 million to be met from reserves. This was broadly in line with the contribution of £1.116 million that was planned. In his Foreword the Treasurer summarises the principal reasons for the favourable budget variance including:
 - Net expenditure on police pensions was £1.288 million less than budget;
 - Additional expenditure was required on rent and rates (0.478 million), uniforms and clothing (£0.431 million) and payment to other agencies (£0.385 million);
 - Interest on Revenue Balances was £0.282 greater than budget.



7. Capital expenditure totalled £6.321 million and was funded by:



The approved capital programme for 2005 to 2008 included provision for Prudential Code borrowing of £4.508 million, of which only £0.334 million was required due to lower than anticipated capital expenditure on a number of projects, including the Livingston Civic Centre, new Peebles Police Station and CSU Accommodation.

8. The Board holds a general fund reserve which consists of both earmarked amounts set aside to support future years' expenditure and a contingency for unexpected events or emergencies. The general reserve also consists of a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing. The Controller of Audit's *'Overview of the local authority audits 2004'* recognises that the appropriate level of balances is for local authorities to determine, taking account of local circumstances, but stresses the need for clear strategies for managing such funds which set out their purpose and intended use. In the absence of clear strategies, there are risks that funds are accumulated unnecessarily or that pressure to restrict rises in constituent authority contribution levels results in an inadequate cushion held to deal with emergencies.

9. At 31 March 2006 the Board held a reserve of £10.865 million. £9.765 million has been 'earmarked' to cover particular commitments:

- £1.635 million to be utilised to fund the approved revenue budget for 2006/07, with a further £1.507 million committed to support the indicative budget for 2007/08;
- £0.042 million to be contributed to reserves in the indicative revenue budget for 2008/09;
- £0.340 million has been earmarked to assist with development of the Force Headquarters;
- £6.325 million set aside to fund future payment of police pension commuted sums.

10. The small residual balance of £1.1 million is available to the Board to meet unexpected risks and developments. Changes in reserves and their application to Board expenditure are reported on a quarterly basis. The remaining reserve balance of £1.1 million represents a decrease of £0.228 million on the closing reserve position reported to the Board when the three-year budget for the period 2006-2009 was approved in January 2006.



Issues arising

11. The Board's unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Final accounts preparation procedures and working papers were of a good standard and this enabled the audit to progress smoothly. 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'). Some adjustments were made to the figures included in the unaudited accounts made available for public inspection, although none of these were of a material amount.
12. Audited accounts were finalised prior to the target date of 30 September 2006 and are now available for presentation to the Board and for publication. The financial statements are an essential means by which the Board accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.
13. Further matters arising from the audit of the financial statements also require to be brought to the attention of members and these are summarised below.

Pension liabilities

14. Accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. In addition, the government is currently considering major changes to public sector pension schemes, with one of the aims being to provide an affordable, secure and sustainable benefit structure.
15. Financial Reporting Standard 17 (Retirement Benefits) 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 very large future liabilities being recognised in the annual accounts.
16. The police officers' pension scheme is unfunded and, therefore, has no assets to be valued. The present value of scheme liabilities at 31 March 2006 is £1,304 million. As the police officers' scheme is unfunded, the pension liability will fall to be met by serving police officers' contributions and by taxpayers in the future (through government grant and constituent authorities' contributions).
17. The Board's estimated pension liabilities for support staff at 31 March 2006 exceeded its share of assets in the Lothian Pension Fund by £25 million. A full valuation of the Fund at 31 March 2005 was published in December 2005 and the results will be reflected in the 2006/07 accounts.



Fixed assets

18. Our audit work on this area identified an issue with the categorisation and revaluation of a number of radio sites, where masts are owned by Lothian & Borders Police, but space on these masts is leased out to a number of third parties, for example, Fire & Rescue Service, Vodafone. This resulted in additional accounts disclosures, including the recognition of operating leases in the notes to the accounts and the basis of their valuation in the accounting policies.
19. The Head of Finance has indicated that that the issue of how these assets are best categorised will be progressed via the ACPOS Finance Group.

Legality

20. Each year we request written confirmation from the Treasurer that the Board's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes and checklists. The Treasurer has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of the Chief Constable and the Force Executive, the financial transactions of the Board were in accordance with the relevant legislation and regulations governing its activities.
21. The Freedom of Information (Scotland) Act 2002 came into force on 1 January 2005 and provides citizens with the right to obtain information and documents held by public authorities in Scotland. During 2005/06, the Board received 636 requests for information ranging from the straight-forward to the extremely complex and time-consuming. During 2005/06, 3 requests took more than 20 days to complete, and appeals have been made on 5 cases.
22. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Statement on the system of internal financial control

23. The 2005/06 financial statements include a Statement on the System of Internal Financial Control which highlights the Treasurer's view that reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal control system, but that work is continuing to embed the risk management process into the Board's activities. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.

Looking ahead

Financial Reporting

24. A number of changes have been made to the 2006 SORP. These include:
 - replacement of the revenue account with a traditional income and expenditure account;



- a new statement that reconciles the income and expenditure account surplus or deficit for the year to the general fund surplus or deficit; and
- replacement of the statement of total movement in reserves with a statement of total recognised gains and losses.

25. These changes will have a significant impact on the presentation of the 2006/07 annual financial statements to make them more consistent with the accounts of other public and private sector entities. The Board should take this opportunity to review the linkages between the Board's budget, budget monitoring reports and summary financial results to members and the wider public to ensure that financial planning and activity is fully transparent.

Action point 1

Change of external auditor

26. Regular rotation of auditors is required by auditing standards and is an important component in guarding against perceived or actual threats to auditors' objectivity and independence. Audit Scotland's policy is to rotate auditors at least once every five years. Where the audit is carried out by Audit Scotland staff rather than a private firm, the engagement lead and other key staff will be rotated.
27. This is the final year of our current appointment to the audit of Lothian & Borders Police Board. From 2006/07 we commence a new five year appointment. Mark Taylor will remain as the engagement lead having served in this capacity for only one year to date. The new audit appointment represents an opportunity to build on existing good practice to continuously improve accounts preparation processes in partnership with the audit team.

Governance



Overview

28. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. Last year we reported that many aspects of a sound corporate governance framework were in place, although work needed to continue to fully embed risk management.
29. During 2005/06 work has continued to improve risk management. In April 2006 a Risk Assessment Workshop was held and used to produce a register of strategic and operational risks. Representatives from all sections of the Board attended the workshop. In total, 29 risks were identified and evaluated. Accountability for the controls of the risks has been allocated and approved. An annual audit of the implementation of the actions flowing from the Risk Register is planned. As well as monitoring the management of these risks, the Board will also need to regularly review their Risk Register.

Action point 2

30. During 2005/06 the Board prepared an infrastructure strategy, supported by an asset management plan. These were approved by the Board in June 2006. The asset management plan focuses on practical actions required over the next 5 years, including the following to be addressed in the next 12 months:
 - continuation of Property Review;
 - further development of the asset management planning process, including corporate guidance on asset management;
 - development of performance management techniques;
 - improve member involvement in the process;
 - undertake backlog maintenance surveys.
31. The Board adheres to the principles outlined in the *Guidance Note on Audit Committee Principles in Local Authorities in Scotland*. The Audit Committee:
 - is formally constituted and meets in public;
 - ensures the systematic appraisal of the Board's control environment and framework of internal control;
 - promotes the development of an appropriate risk management strategy;
 - receives various guidance/training from internal and external audit, the committee secretary and the Chief Constable on the workings of an audit committee.



32. Internal audit plays a key role in the Board's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. The Board's internal audit service is provided by the City of Edinburgh Council under a service level agreement.
33. Each year we undertake an overview of internal audit arrangements which includes an assessment of whether or not we can place reliance on internal audit work in order to reduce our own input. We are pleased to conclude that internal audit work within the Board continues to be of a sufficient standard to allow us to rely on it.

Anti-fraud and corruption arrangements

34. The Board has an approved Anti-Fraud Policy, Fraud Response Plan and Professional Standards Reporting Policy which contribute to sound arrangements to prevent and detect fraud and corruption. Each year Audit Scotland gathers information on actual cases of fraud identified by audited bodies, including police boards. In 2005/06 there were no cases reported for Lothian & Borders Police.

Systems of internal control

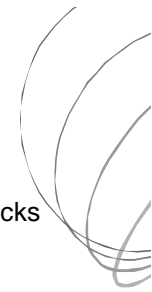
35. Reliance was placed on the work of internal audit in 2005/06 to evaluate a number of key systems in place within the Board. The Chief Internal Auditor concluded that *'reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal control system in the year to 31 March 2006'*.

Issues from previous years

36. Recommendations made in previous years' audit reports are monitored by management and internal audit, with progress regularly reported to the Audit Committee. A report submitted to the Audit Committee in June 2006 highlighted that, overall, satisfactory progress had been made in implementing both external and internal audit recommendations. Progress made in addressing the recommendations raised in our report on the 2004/05 audit is highlighted throughout this report.

Information Security Management

37. The 2005/06 audit involved a review of the Board's information security management. The main aim of the review was to ensure a proper information security management process was established within the force. We based our assessment on relevant quality standards.
38. Overall, we concluded that the information security management within the force is well managed and operates effectively. However, it should be noted that new threats to the information security of an organisation continues to emerge quickly and this is an area that needs to be kept under constant review. The main areas where improvements can take place include:
 - the process for handling staff access rights who change roles within the force;



- reviewing the information security policy on storage media to take into account USB Memory Sticks and similar devices which are potentially a security risk; and
- reviewing the information security policy (computer) to ensure that it complies with the latest version of the information security standard.

Looking ahead

39. In the coming years the Board needs to continue to improve its governance arrangements, including:
- continuing development of risk management throughout the organisation;
 - further development of a robust asset management planning process to ensure best value in the use of the Board's assets and that spending plans are affordable, prudent and sustainable.

Action point 2

40. The Board has been participating in the National Fraud Initiative (NFI) which aims to identify and reduce fraud by bringing together data from local authorities and other public agencies to help detect a wide range of frauds against the public sector. The initiative also enables bodies to detect overpayments made in error or through honest misunderstandings. Audit Scotland is working with the Audit Commission to widen the scope of the NFI during 2006/07. Public bodies will provide information again in October this year and will have fresh information to investigate in early 2007. The Board needs to ensure that it uses the opportunities presented by the NFI on an ongoing basis to assist in the detection of fraud.

Performance



Her Majesty's Inspectorate of Constabulary for Scotland

41. Audit Scotland work closely with HMIC and other scrutiny bodies to minimise the burden of audit and inspection on public bodies and to optimise the use of resources available for such work.
42. HMIC undertook a primary inspection of Lothian & Borders Police in October 2003 and reported on progress in implementing the recommendations arising from that inspection in January 2005. HMIC requested the Force prepare a revised action plan to address all outstanding areas robustly. As part of their follow up of audit recommendation, Internal Audit have established that all HMIC actions have been satisfactorily progressed.
43. The next formal review is scheduled to take place in 2006 and will include consideration of all areas not yet discharged.

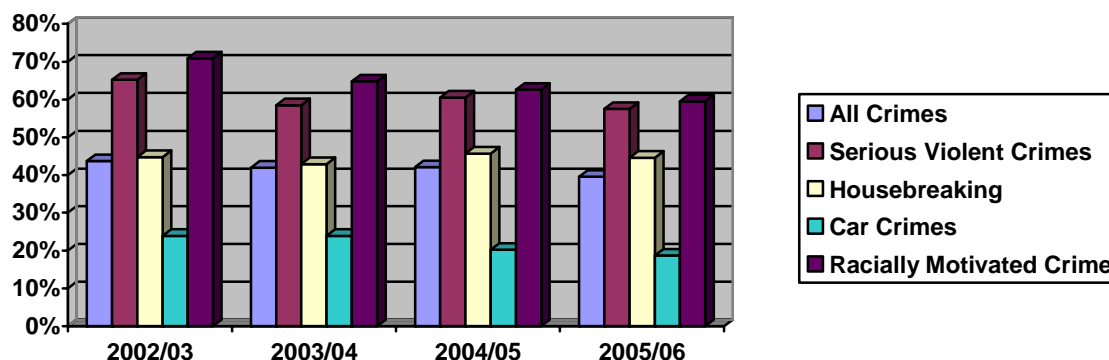
Performance indicators

44. The Board has a statutory duty to publish specified performance indicators as directed each year by the Accounts Commission. We review the 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. All of the Board's performance indicators submitted for audit were assessed as reliable this year, although a number of adjustments were made to the indicators as a result of the audit.
45. Audit Scotland publishes a compendium of data on its Web Site <http://www.audit-scotland.gov.uk/performance/index.htm> where all local authorities, Police Boards and other bodies are listed and all authorities are encouraged to use this information to identify scope for improvement and to contribute to their programme of service reviews. Key points from the 2005/06 statutory performance indicators include:
 - a significant improvement in the number and percentage of reports sent to the Children's Reporter within 10 working days (National Target) from caution or charge (from 60% in 2004/05 to 86% in 2005/06);
 - a slight improvement in the number and percentage of reports sent to the Procurator Fiscal within 28 working days from caution or charge (from 46% in 2004/05 to 55% in 2005/06), although this falls significantly short of the national target of 80%;
 - a slight decline across all groups in the percentage of crimes cleared up or solved;
 - a significant increase in the number of people and children killed or seriously injured as a result of road accidents.



Percentage of Crimes Cleared Up

46. SPIs show that the overall percentage of all crimes cleared up is falling slightly, although there are variations between identified categories of crime.



47. A national target has been set to reduce the incidence of serious violent crime by 5%. This has been achieved by the Board, with a decrease in incidence from an average of 3,249 serious violent crimes to 2,897 in 2005/06. However, there has been a reduction in the clear up rate in this area of 7.7% against a national target of an increase of 2% in the clear up rates.

48. The Board's clear up rate for housebreaking continues to be above the Scottish average. However, it failed to meet the national target of reducing the incidence of housebreaking by 5%, with the number of incidences of housebreaking actually increasing by 22% over this period.

49. The Board has exceeded the national target of 15% for the reduction in the number of incidents of car crime (18%) in the corresponding timescale. The clear up rate for car crime, however, continues to deteriorate.

50. The number of racial incidents per 1,000 population has increased by over 40% since 2002/03. A national target was set for the increase in the detection rate for racially aggravated crime by 5% by 2005/06, using figures from 2000 to 2003 as a baseline. During this time, the Board's detection rate fell by 6.4%.

Number of people killed or injured as a result of road accidents

51. National targets were set for a reduction in those killed or injured as a result of road accidents by 2005/06, using figures from 1994 to 1998 as a baseline. The Board has achieved significant reductions, meeting national targets in two of the three categories:

- a 18% reduction in the number of people killed or seriously injured (target 33%);
- a 30% reduction in the number of children killed or seriously injured (target 40%); and
- a 18% reduction in slight injuries (target 10%).

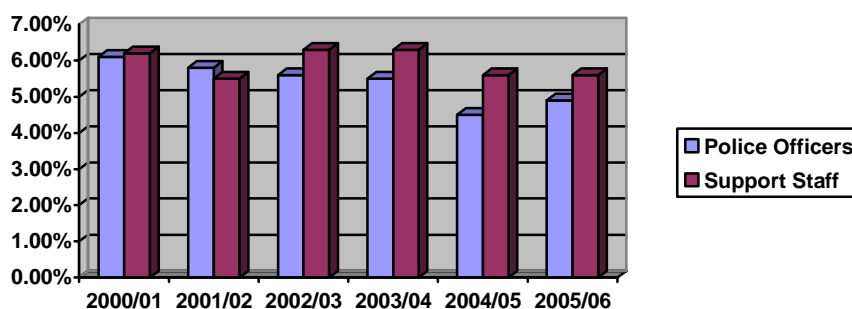


Proportion of 999 calls answered within ten seconds

52. In 2005/06 the Force's performance in answering 999 calls within 10 seconds rose from 73.9% to 75.5%. However, this remains well below the 2004/05 Scottish average of 88.8%.

Proportion of working time lost due to sickness absence

53. In previous years we have highlighted the improved levels of sickness absence for both police officers and support staff. However, in 2005/06 absence for police officers rose slightly and remains above the national average for 2004/05.



Police reports

54. A national target of 10 working days after caution/charge has been set for the time taken to submit police reports to the Children's Reporter. In relation to submission of reports to the Procurator Fiscal, the Crown Office and Procurator Fiscal Service and ACPOS have agreed that Forces should aim to submit 80% of reports within 28 calendar days. Last year we reported that in both cases Lothian & Borders Police fell significantly short of these targets. In 2005/06 performance has improved, but remains below target levels:

- 86% of reports were sent to the Children's Reporter within 10 working days (2004/05, 60% and 2004/05 national average, 76%);
- 55% of reports were sent to the Procurator Fiscal within 28 calendar days (2004/05, 46% and 2004/05 national average, 47%).

Action point 3

Looking ahead

55. The Board's performance during 2005/06 as measured by SPIs has been variable, with some national targets exceeded, some not met and some areas of improvement since 2004/05. Particular areas for continuing attention in the coming years are the need to meet national targets for the reduction in people and children killed or seriously injured as a result of road accidents and to improve the clear up rate for serious violent crimes and car crime.



56. A national performance audit study on police call management is currently underway, with the report scheduled for publication in mid-2007. The Board should take the opportunity to review their own arrangements in the light of any recommendations, or best practice, highlighted by the study.

Action plan

No.	Issue, risk & recommendation	Responsible officer	Response & agreed action	Action date
1. (para 25)	<p>Financial reporting</p> <p>Changes have been made to the 2006 SORP which will have a significant impact on the presentation of the 2006/07 financial statements to make them more consistent with the accounts of other public and private sector entities.</p> <p><i>Risk: in the event of insufficient preparation, the 2006/07 financial statements may not comply with accounting requirements. Differences between financial reporting requirements and budget monitoring during the year may result in a lack of transparency for members and the public.</i></p> <p>Recommendation: the Board should take this opportunity to review the linkages between the Board's budgets, budget monitoring reports and summary financial results to members and the wider public to ensure that financial planning and activity is fully transparent.</p>	Head of Finance in consultation with the Treasurer	<p>Meeting to be arranged between Head of Finance, Deputy Head of Finance and Treasurer's Representative to identify required changes to comply with 2006 SORP, agree revised presentation of the 2006/07 Accounts and consider the review of the presentation of budget information to members and wider public.</p> <p>Accountable Officers to attend appropriate technical update courses to ensure knowledge is updated to meet the required changes.</p>	Jan 2007
2. (paras 29, 39)	<p>Governance</p> <p>The Board requires to continue ongoing development of its governance arrangements, including risk management and asset management processes.</p> <p><i>Risk: the Board may fail to identify and manage significant risks to its objectives or may be unable to demonstrate the sustainability of spending decisions or a robust, affordable and sustainable capital planning in the longer-term.</i></p> <p>Recommendation: the Board should continue the development of risk management and implementation of the asset management plan.</p>	Mr Peebles (DCS) David Seath (Central Services Manager)	<p>Risk Management is actively developed within the Force with Divisions/Departments required to produce and monitor risk plans on a regular basis.</p> <p>Asset Management Planning is based upon professional assessment of current assets and future requirements. The financial impact of investment decisions are fed into the 3 year plan. Asset management planning is an ongoing development within the Force with the ultimate aim being the integration between asset management planning and financial planning.</p>	Jan 2007

No.	Issue, risk & recommendation	Responsible officer	Response & agreed action	Action date
3. (para 54)	<p>Submission of police reports</p> <p>A national target has been set for Forces to report 80% of reports to the Procurator Fiscal within 28 calendar days after caution/charge.</p> <p>Although there has been a slight improvement in performance in this area since 2004/05, Lothian & Borders Police still falls significantly short of target in 2005/06 with only 55% reports meeting the target.</p> <p><i>Risk: the Board does not contribute to the smooth running of the justice system.</i></p> <p>Recommendation: the Board should review its procedures in order to speed up submission of police reports to the Procurator Fiscal to meet the national target.</p>	<p>Mr Peebles (DCS)</p> <p>Mr Gargett (Head of Criminal Justice Admin)</p>	<p>This matter is now being treated as a priority case. A recent meeting was held with APF where areas to concentrate on were agreed. Similarly, HMIC recommendations taken on board with agreement to report progress.</p> <p>In addition, the West Lothian Criminal Justice Project has proved itself in this regard and the performance figures from that ('F') division are continuing to improve. The same type of project is now being introduced into our largest division, 'A' division and again performance in this area is expected to show significant improvement after introduction of the 're-design' stage, some months on.</p> <p>Further work on this national target is being worked on throughout divisions.</p>	Jan 2007