

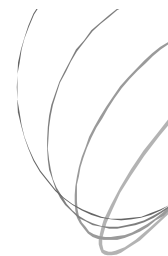
# Northern Joint Police Board

Report to Members on the 2005/06 Audit

October 2006

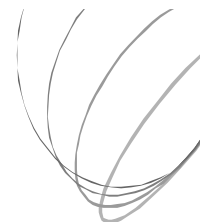






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# Key Messages

In 2005/06 we have audited the financial statements and looked at aspects of performance and governance within Northern Joint Police Board. This report sets out our main findings.

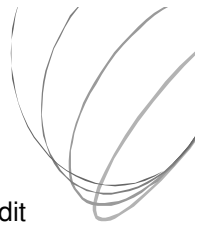
Overall, we found the financial stewardship of Northern Joint Police Board during the year to be satisfactory. The main conclusions and outcomes from the audit are highlighted below:

- An unqualified audit opinion has been issued on the financial statements for 2005/06
- The Statement on the System of Internal Financial Control included in the accounts complies with accounting requirements and is not inconsistent with audit findings
- Final accounts preparation procedures and working papers were generally good and this enabled the audit to progress satisfactorily
- The Board has many aspects of a sound corporate governance framework in place. Further work is required, however, to develop a risk management strategy that includes an assessment of both financial and non-financial risks and to embed risk management processes throughout the Force
- 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'* and our own work concluded that high level controls exist and operate in a number of key systems
- All eleven of the Statutory Performance Indicators (SPIs) were assessed as reliable. The absence of an independent checking procedure, however, resulted in three indicators being changed prior to submission to Audit Scotland headquarters due to errors in their compilation. Performance during 2005/06 as measured by SPIs has been variable

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 the development of a risk management strategy and a robust asset management planning process;
- the need to meet national targets for the number of recorded offences for supply and possession with intent to supply class A drugs and reduction of serious violent crimes; and to improve the clear up rate for housebreaking.

Key issues for the attention of members are outlined in the Action Plan included in this report.



This is the final year of our current appointment to the audit of the Board. From 2006/07, however, Audit Scotland will remain as the Board's appointed auditor and Bob Clark will be the engagement lead. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the Board over the five years of our audit appointment.

**Audit Scotland**  
**October 2006**

# 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
  - 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.

# Financial statements & financial position

3. In this section we summarise key outcomes from our audit of the Board's financial statements for 2005/06, aspects of the Board's reported financial position and performance to 31 March 2006, and provide an outlook on future financial prospects and financial reporting issues.

## Auditor's report

4. We have given an unqualified opinion on the financial statements of Northern Joint Police Board for 2005/06, concluding that:
  - the financial statements present fairly the Board's financial position at 31 March 2006 and income and expenditure during the year;
  - the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973.
5. The Board's balance sheet has an excess of liabilities over assets of £325.933 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.
6. The Board has considered it appropriate to adopt a going concern basis for the preparation of the financial statements. 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

7. The Board's net revenue expenditure amounted to £53.705 million and was met by government grants and constituent authorities' contributions of £53.757 million, resulting in an overall surplus for the year of £0.052 million. In his Report, the Treasurer summarises performance against budget. The major factors contributing to the overspend against the operational budget (prior to accounting for earmarked reserves) were increased staff costs resulting from four murder enquiries, increased expenditure on clothing and protective equipment for staff, and additional laboratory costs resulting from increased DNA testing.

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 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 £2.849 million, £1.099 million of which has been earmarked to fund the future cost of police pension entitlements accruing to those officers eligible to retire at 31 March 2006 but who have elected to remain in service. The Board has yet to adopt a clear strategy for the remaining reserve balance of £1.75 million. In response to our Report on the 2004/05 Audit, the Board agreed to adopt such a strategy by 31 December 2006.

#### **Action point 1**

10. Capital expenditure totalled £3.865 million, against a budget of £5.521 million, and was funded by government grant of £2.795 million and disposal proceeds of £1.070 million. The underspend against budget was due partly to slippage in the Integrated Communications Development Programme and partly to significant savings made on the Airwave part of this programme.

## **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 generally good and this enabled the audit to progress smoothly.
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. 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'). A number of adjustments were made to the figures included in the unaudited accounts made available for public inspection. None of the adjustments made had an impact on the surplus achieved in the year.



## Legality

14. 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.
15. 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

16. 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 financial control system, but that work is ongoing to further enhance the control environment and address weaknesses by:
  - adopting a Local Code of Corporate Governance and risk management strategy ;
  - reviewing and updating, where necessary, the Board's Financial Regulations;
  - introducing an independent check of the accuracy of the calculation of each indicator into the process for the preparation of the statutory performance indicators;
  - ensuring adequate segregation of duties and authorisation procedures within the stock control system;
  - improving the controls in operation over the use of corporate credit cards.
17. The Board operates the corporate financial systems of the Highland Council. The Board's internal auditor (the Highland Council's Head of Internal Audit & Risk Management) has relied on his audits of these corporate financial systems in preparing his Annual Report to support the Treasurer in signing the Statement.
18. The Statement complies with accounting requirements and is not inconsistent with the findings of our audit.

## Future outlook

### *Pension liabilities*

19. 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.
20. 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.
21. The police officers' pension scheme is unfunded and, therefore, has no assets to be valued. Note 11 to the Balance Sheet highlights that the present value of scheme liabilities at 31 March 2006 is £335.2 million. 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 government grant and constituent authorities' contributions).
22. The Board's estimated pension liabilities for support staff at 31 March 2006 exceeded its share of assets in the Highland Council Pension Fund by £6.157 million. The full triennial actuarial valuation of the Highland Council Pension Fund was reported in early 2006. Factors such as the volatile stock market and increasing life expectancy have resulted in the funding level, calculated as the ratio of fund assets to past service liabilities, falling from 105% as at March 2002 to 92% as at March 2005.
23. The actuary is required to make a 3-year assessment of the contributions that should be paid by the employing authorities as from April 2006 to maintain the solvency of the fund. The contribution levels are based on percentages of employee contributions, normally 5% - 6% of salary. The current 3-year assessment shows that budgeted contributions are expected to rise from 270% of employee contributions to 290% by 2008/09.

### *Financial reporting*

24. A number of changes have been made to the 2006 SORP which 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 presentation of its budget and summary financial results to members and the wider public to ensure that financial planning and activity is fully transparent. The changes 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.

**Action point 2**

### *Revaluation of assets*

25. The 2006 SORP requires assets valued at current cost to be formally revalued by a qualified valuer at intervals of not more than five years. The Board's operational land and buildings were last valued at 31 March 2002. In order to comply with this accounting requirement, the Board needs to ensure that these assets are revalued by 31 March 2007 (ie prior to the preparation of the 2006/07 financial statements).

**Action point 3**

# Governance

26. In this section we comment on key aspects of the Board's governance arrangements during 2005/06 and provide an outlook on future governance issues.

## Overview


27. 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 although the Board had a number of elements of a sound corporate governance framework in place, a risk management strategy had yet to be developed. We are concerned to note that little progress has been made in this area over the last year.
28. The Board has established an Audit Working Group to consider the work of Internal and External Audit. During the year, the Group assessed itself against the principles outlined in the *Guidance Note on Audit Committee Principles in Local Authorities in Scotland* but is still considering what, if any, changes should be introduced as a result. The Board has yet to introduce a mechanism to monitor the implementation of External Audit recommendations.
29. 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 Highland Council's Internal Audit section provided an internal audit service to the Board during 2005/06.
30. 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 concluded 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

31. The Board has an approved Strategy for the Prevention and Detection of Fraud and Corruption and has established written procedures for the investigation of suspected cases of fraud and corruption.

## Systems of internal control

32. Reliance was placed on the work of internal audit in 2005/06 to evaluate a number of key systems in place within the Board. Internal Audit undertook a high level review of the Board's systems of internal financial control and concluded that, based on the audit work carried out during the year, *'reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal control system in the year to 31 March 2006'*.



33. Our 2005/06 audit also included follow-up of progress made in implementing previous audit recommendations. We found that the Board is still in the process of actioning two significant areas highlighted in the 2004/05 Report to Members:

- the need to set prudential indicators, as required by the Code, to enable the Board to demonstrate that its capital expenditure plans are affordable, prudent and sustainable;
- the need to develop a comprehensive corporate asset management plan to inform and drive capital planning decisions. Asset management planning should provide real integration between asset management and financial planning and contribute to debates on affordability and long term objective setting.

34. As part of our work to provide an opinion on the financial statements we assessed the extent to which we could gain assurance on a number of the Board's main financial systems. Our overall conclusion was that high level controls exist and operate effectively in a number of key systems. The Board operates using some of the corporate financial systems of the Highland Council. We have also been able to take assurance from our work as the Council's auditor on these systems.

## Future outlook

35. In the coming years the Board faces challenges to improve its governance arrangements, including:

- the development of a risk management strategy that includes an assessment of both financial and non-financial risks. Once developed, further work will be required to embed risk management processes throughout the organisation;
- ensuring that the results of the Audit Working Group's self assessment against the principles outlined in the *Guidance Note on Audit Committee Principles in Local Authorities in Scotland* are used to improve the Board's scrutiny arrangements;
- the 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 4**

36. 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

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

## Statutory performance indicators

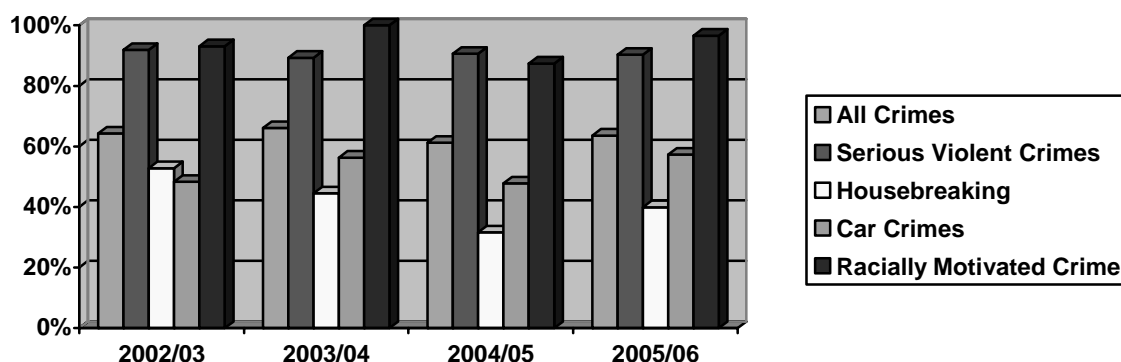
38. The Board has a statutory duty to collect, record and publish specified performance indicators and, so far as is practicable, ensure they are accurate and complete. The Accounts Commission issue a Direction each year detailing the statutory performance indicators (SPIs) that require to be published and external auditors review the 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.


39. We assessed all of the Board's eleven statutory performance indicators as reliable. This is an improvement on 2004/05 when one indicator was assessed as unreliable. The absence of an independent checking procedure, however, resulted in three indicators (sickness absence, drugs offences and quality of service surveys) being changed prior to submission to Audit Scotland headquarters due to errors in their compilation. Throughout this audit appointment, we have stressed the importance of an independent checking procedure in ensuring that the Board's performance indicators are, so far as is practicable, accurate and complete.

### Action point 5

## Percentage of crimes cleared up

40. SPIs show that the overall percentage of crimes cleared up has increased slightly since 2004/05.



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41. A national target has been set to reduce the incidence of serious violent crime by 5% from the baseline period 2000 to 2003. This has not been achieved by the Board, with an increase in incidence from an average of 451 serious violent crimes to 537 in 2005/06. There has also been a reduction in the clear up rate of 1.7% against a national target of an increase of 2% in the clear up rates.
42. The Board has substantially exceeded the national targets of 5% and 15% for the reduction in the number of incidents of housebreaking (34%) and car crime (49%) in the corresponding timescale. The clear up rate for housebreaking has, however, decreased significantly since the baseline period.
43. The number of racial incidents per 1,000 population has almost doubled in recent years. A national target was set to increase the detection rate for racially aggravated crime by 5% by 2005/06, using figures from 2000 to 2003 as a baseline. Although the Board has not achieved this target, it has increased its detection rate to 96.6%, an increase of 2.7% on the baseline percentage.
44. A national target has also been set to increase the number of recorded offences for supply and possession with intent to supply class A drugs by 10%. In 2005/06 the Board recorded 47 offences, a decrease of 4% on the average number between 2000 and 2003.

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

45. 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 exceeded two of the targets set with:
- a 47% reduction in the number of people killed or seriously injured (target 33%);
  - a 60% reduction in the number of children killed or seriously injured (target 40%).

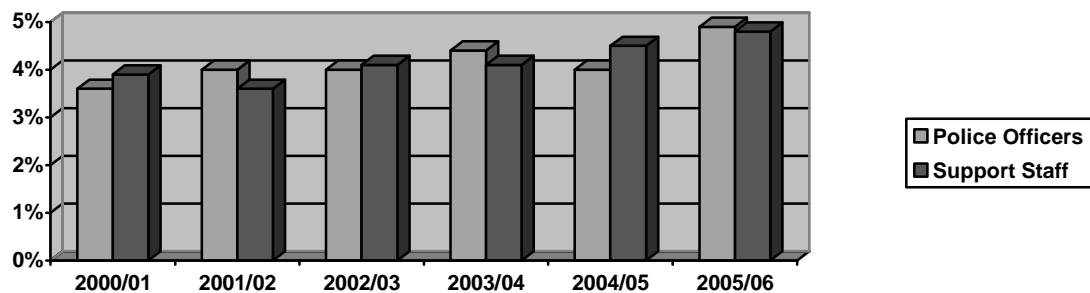
The Board failed to achieve the third target, recording only a 5% reduction in the number of people with slight injuries against the national target of a reduction of 10%. However, this represents a significant improvement from 2004/05 when only a 0.6% reduction was recorded.

#### *Proportion of 999 calls answered within ten seconds*

46. In 2004/05 the Board was able to answer 95.9% of all 999 calls within 10 seconds, a figure that exceeded the 2004/05 Scottish average of 88.8%. In 2005/06 performance has deteriorated, with the Force answering 84.9% of all 999 calls within 10 seconds. We have been advised that this is due to the introduction, during 2005/06, of a new control room and call handling system.

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

47. The level of absence for police officers has increased since 2004/05 and currently stands at 4.9% compared with the 2004/05 national average of 4.4%. The level of absence for support officers has also increased to 4.8% during 2005/06 but this is still below the 2004/05 national average of 5.2%:



### *Police reports sent to the Children's Reporter*

48. 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. The Board has improved the percentage of reports it submits to the Children's Reporter within 10 working days from 55.4% in 2004/05 to 65.1% in 2005/06 but still has some way to go to reach the 2004/05 national average of 76%.

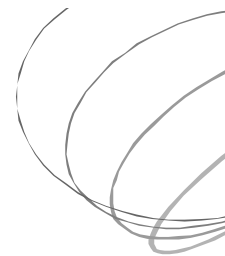
### *Police reports sent to the Procurator Fiscal*

49. The Crown Office and Procurator Fiscal Service and ACPOS have agreed that Forces should aim to submit 80% of reports to the Procurator Fiscal within 28 calendar days. The Board still has some way to go to meet this target achieving 64.4% in 2005/06, a slight improvement on 2004/05 (63.4%).

## **Future outlook**

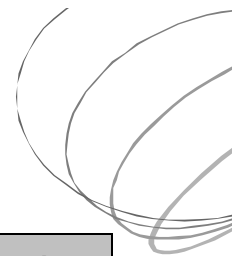
50. The Board's performance during 2005/06 as measured by SPIs has been variable, with some national targets exceeded, some not met and some areas of improvement since 2004/05. Particular areas for continuing attention in the coming years are the need to meet national targets for the number of recorded offences for supply and possession with intent to supply class A drugs and reduction in serious violent crimes; and to improve the clear up rate for housebreaking.
51. 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.



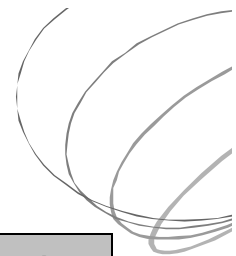


# Risk summary and action plan

| No. | Issue & risk   | Responsible officer | Response & agreed action  | Action date            |
|-----|--|---------------------|---|------------------------|
| 1.  | <p><b>Financial strategy</b></p> <p>The Controller of Audit's <i>'Overview of the local authority audits 2004'</i> report 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.</p> <p>The Board holds a general fund reserve totalling £2.849 million, part of which is earmarked to fund future payment of police pension commuted sums. The Board does not have a clear strategy for the remaining reserve balance of £1.75 million.</p> <p><i>Risk: 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.</i></p> | Chief Constable     | A reserves strategy is to be presented to November's Board meeting for agreement. | 31<br>December<br>2006 |



| No. | Issue & risk   | Responsible officer                | Response & agreed action   | Action date   |
|-----|--|------------------------------------|--|---------------|
| 2.  | <p><b>Financial reporting</b></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. The Board should take this opportunity to review the presentation of its budget and summary financial results to members and the wider public to ensure that financial planning and activity is fully transparent.</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> | Treasurer                          | Procedures are in place to review the SORP and to ensure that the 2006/07 financial statements will comply with accounting requirements. A reconciliation will be provided at the year end to provide a transparent link between monitoring information provided during the year and the financial statements. | 31 March 2007 |
| 3.  | <p><b>Revaluation of assets</b></p> <p>The 2006 SORP requires assets valued at current cost to be formally revalued by a qualified valuer at intervals of not more than five years. The Board's operational land and buildings were last valued at 31 March 2002. In order to comply with this accounting requirement, the Board needs to ensure that these assets are revalued by 31 March 2007 (ie prior to the preparation of the 2006/07 financial statements).</p> <p><i>Risk: failure to revalue operational land and buildings in line with the requirements of the SORP may lead to a 'limitation of scope' qualification to the Independent Auditor's Report.</i></p>   | Treasurer /<br>Director of Finance | A full revaluation is underway.  | 31 March 2007 |



| No. | Issue & risk  | Responsible officer | Response & agreed action  | Action date   |
|-----|---|---------------------|---|---------------|
| 4.  | <p><b>Governance</b></p> <p>The Board requires to continue ongoing developments to improve governance arrangements, including the development of a risk management strategy, improved scrutiny arrangements and robust asset management processes.</p> <p><i>Risk: the Board may fail to identify and manage significant risks to its objectives, will have no independent assurance that the control environment is adequate, and may be unable to demonstrate a robust, affordable and sustainable approach to capital planning in the longer-term.</i></p> | Chief Constable     | Risk management and asset management developments are taking place and will be brought to a future Board meeting. The Audit Working Group continues to develop their scrutiny arrangements. | 31 March 2007 |
| 5.  | <p><b>Performance indicators</b></p> <p>The Board has a statutory duty to publish specified performance indicators and, so far as is practicable, ensure they are accurate and complete. There was no evidence that any of the 2005/06 indicators had been independently checked prior to submission to audit. Consequently, three indicators required to be amended prior to submission to Audit Scotland headquarters.</p> <p><i>Risk: published indicators are not accurate and complete.</i></p>  | Chief Constable     | Internal Audit reviewed this area recently and various recommendations have been implemented. This is expected to be resolved for the 2006/07 audit.  | 31 March 2007 |