

Northern Joint Police Board

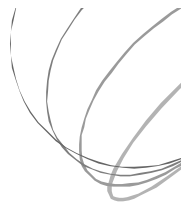
Report to Members and the Controller of Audit on the 2007/08 Audit



October 2008

Contents

Introduction	1	Performance	11
Financial statements	2	Final Remarks	14
Governance	7	Appendix A: Action Plan	15



Introduction

1. This report summarises the findings from our 2007/08 audit of Northern Joint Police Board. The scope of the audit was set out in our annual audit plan issued on 19 February 2008.
2. The financial statements of the Joint Board are the means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. It is the responsibility of the Joint Board to prepare financial statements that present fairly its financial position and the income and expenditure for the year.
3. The members and officers of the Joint Board are responsible for the management and governance of the organisation. As external auditors, we review and report on the arrangements in place and seek to gain assurance that:
 - the financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed;
 - the Joint Board's system of recording and processing transactions provides an adequate basis for the preparation of the financial statements and the effective management of assets and interests;
 - the Joint Board has adequate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability;
 - the systems of internal control provide an appropriate means of preventing or detecting material misstatement, error, fraud or corruption;
 - the Joint Board has proper arrangements for securing best value in its use of resources.



Financial statements

Introduction

4. In this section we summarise key outcomes from our audit of the Joint Board's financial statements for 2007/08. We also summarise key aspects of the Joint Board's reported financial position and performance to 31 March 2008.
5. We audit the financial statements and give an opinion on:
 - whether they present fairly the financial position of the Joint Board and its expenditure and income for the year; and
 - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
6. We also review the Statement on the System of Internal Financial Control by considering the adequacy of the process put in place by the Joint Board to obtain assurances on systems of governance and internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the Joint Board.

Overall conclusion

7. We have given an **unqualified** opinion on the financial statements of Northern Joint Police Board for 2007/08.
8. 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'). The 2007 SORP required a number of significant changes to be made to the 2007/08 financial statements to make them more consistent with the accounts of other public and private sector entities. The major changes included:
 - accounting for financial instruments based on financial reporting standards FRS25, FRS 26 and FRS 29
 - replacing the fixed asset restatement account and capital financing account by a revaluation reserve and a capital adjustment account.
9. Overall, we were satisfied that the financial statements were prepared in accordance with 2007 SORP.



10. There were a number of significant adjustments made to the figures included in the un-audited financial statements provided for public inspection. Details of the adjustments are summarised below in paragraph 20.

Financial position

Going concern

11. The Joint Board's balance sheet at 31 March 2008 shows net liabilities of £300.241 million. Auditing standards require auditors to consider an organisation's ability to continue as a going concern when forming an opinion on the financial statements. One of the indicators that may give rise to going concern considerations is an excess of liabilities over assets.
12. The net liability position is due to the requirements of Financial Reporting Standard 17 (retirement benefits) where there is an obligation to recognise the Joint Board's full pension obligations in the year they are earned. This technical accounting requirement has had no impact on the underlying basis for meeting current and ongoing pension liabilities which will be met, as they fall due, by contributions from constituent authorities in the normal way. In common with similar authorities, the Joint Board has considered it appropriate to adopt a going concern basis for the preparation of the financial statements.

Financial performance 2007/08

13. The Joint Board's net operating expenditure for 2007/08 amounted to £56.75 million (after elimination of FRS 17 pension adjustments) and was met by police grant of £29.996 million and constituent authorities' contributions of £28.544 million resulting in a small surplus for the year of £1.79 million. In his Report the Treasurer summarises performance against budget.
14. A major factor contributing to the surplus was underspending of £1.445 million related to budgets provided for Forensic Science Service and Common Police Services, which were subsequently transferred to the Scottish Police Services Authority. There was overspending on property costs, administration costs and transport costs largely offset by savings in staff costs; additional income relating to services of police, secondment of both officers and staff and increased rental income from radio sites and advantageous borrowing rates reducing capital charges in the year.
15. The Joint Board holds a general fund reserve as a contingency for unexpected events or emergencies. It is for the Joint Board to determine its strategy for managing such funds after taking account of local circumstances. At 31 March 2008 the Joint Board held a general fund reserve of £3.671 million.



16. Capital expenditure totalled £2.153 million and was funded by government grant of £1.485 million, current revenue of £0.016 million and capital receipts of £0.652 million.

Issues arising from the audit of the financial statements

17. The financial statements are an essential means by which the Joint Board accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources. The Joint Board's unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June.
18. 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 financial statements made available for public inspection.
19. At 1 April 2007 services provided by the Force relating to forensic science and common police services amounting to £1.306 million were transferred to the Scottish Police Services Authority (SPSA). These were followed by the transfer of ICT services on 1 April 2008. Both services were presented under discontinued operations in the income and expenditure account. We were advised that discussions are ongoing about ownership of fixed assets.
20. The most significant adjustments were:
- change in gain on sale of fixed assets from £0.239 million to £0.039 million. This adjustment does not impact on the resources available to the Joint Board
 - realignment of the source of finance of £0.216 million to fund additional pension payments in the light of the change to pension commutation factors for police officers. It was originally assumed that the additional costs would be met by requisitions from constituent authorities. The adjustment has no effect on the income and expenditure account
 - capital expenditure of £0.552 million treated as not adding value reclassified as additions to fixed assets
 - software licences totalling £0.084 million (of which £0.068 million was previously included as non enhancing capital expenditure and the balance included as current expenditure) are reclassified as intangible assets in the balance sheet. This change of treatment has no impact on the income and expenditure account.



IFRS adoption

21. Central government and NHS bodies are to move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2009/10. The government also announced its intention to publish Whole of Government Accounts on an IFRS basis from 2009/10. The intention is that local government will adopt IFRS for 2010/11, although there is a possibility that early adoption may be required in some areas.

Transfer of Housing Stock

22. The Joint Board believes that it cannot sustain its housing stock as it requires a significant amount of investment to meet the required quality standards for housing. The Joint Board also believes that it does not have the capacity and expertise to hold and operate its housing stock. There is a plan to transfer most of the housing stock to registered social landlords with the housing in the islands expected to transfer in December 2008 followed by mainland Highland area in 2009/10. The Joint Board has yet to give its formal approval for the plan. It must also ensure that all legal and financial implications are taken into consideration to ensure the smooth transfer of the housing stock.

Key risk area 1

Financial outlook - pension liabilities

23. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long and the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions.
24. In accounting for pensions, FRS 17 is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This requirement results in large future liabilities being recognised in the financial statements.
25. The police officers' pension scheme is unfunded and, therefore, has no assets to be valued. Note 14 to the Balance Sheet highlights that the present value of scheme liabilities at 31 March 2008 is £326.378 million (£341.243 million to 31 March 2007). As the scheme is unfunded, the pension liability will fall to be met by serving police officers' contributions and by taxpayers in the future (through constituent authorities' contributions).
26. The Joint Board's estimated pension liabilities for support staff at 31 March 2008 exceeded its share of assets in the Highland Council Pension Fund by £3.679 million (£3.447 million at 31 March 2007).



27. The next full actuarial valuation of the Highland Council Pension Fund will assess the position at 31 March 2008 and is expected to be reported by December 2008. This will determine contribution rates for 2009-10 and the next two financial years. Factors such as volatile stock markets and increasing life expectancy impact on the funding level for the Highland Pension Fund, calculated as the ratio of fund assets to past service liabilities. The employers' contribution levels are based on percentages of employee contributions, normally 5% to 6% of salary. The budgeted employers' contributions rose from 270% of employee contributions in 2006/07 to 280% in 2007/08 and 290% in the 2008/09 financial year.

Legality

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



Governance

Introduction

30. In this section we comment on key aspects of the Joint Board's governance arrangements during 2007/08.

Overview of arrangements in 2007/08

31. Corporate governance is concerned with structures and processes for decision making, accountability, control and behaviours at the upper levels of the organisation. The Joint Board has a responsibility to put in place arrangements for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice.
32. A Statement on the System of Internal Financial Control is included within the annual financial statements, and highlights the Treasurer's view that reasonable assurance can be placed upon the adequacy and effectiveness of the Joint Board's internal financial control system. However, the statement highlighted the need to improve the undernoted controls:
- a need to put processes in place to ensure that all items recorded in the found property register held at police headquarters have been sent to the found property store at Inverness Area Command
 - a need to develop objectives and direction in the operation and management of radio sites
 - a need to review and update document retention guidance and to ensure that the updated guidance is available on the Force intranet.
33. Remedial action was taken on the first two points by 31 March 2008 and the Force expects to complete its action on the third point by 31 March 2009. Internal audit will review progress in implementing the third action as part of its 2008/09 programme of work.
34. The statement complies with accounting requirements and is consistent with the findings of our audit.

Systems of internal control

35. The Joint Board's financial transactions are processed through Highland Council's financial systems. It is the responsibility of the Joint Board's management to maintain adequate financial systems and associated internal controls. The auditor evaluates significant financial systems and associated internal controls both for the purpose of giving an opinion on the financial statements and as part of a review of the adequacy of governance arrangements.



36. Our review of these systems was conducted as part of the audit of Highland Council, supplemented by specific audit work on the Joint Board's financial statements. Overall there are no material issues of concern in relation to the operation of the council's main financial systems.
37. Our specific audit work on the Joint Board's financial systems identified:
- instances of insufficient segregation of duties in respect of accounts payable
 - the register of authorised signatories may not be up to date in light of the Force Review
 - absence of formal policy on review of impairment of fixed assets.

Key risk areas 2 to 4

38. Internal audit plays a key role in the Joint Board's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. The Highland Council's internal audit section provided an internal audit service to the Joint Board during 2007/08.
39. 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.

Prevention and detection of fraud and irregularities

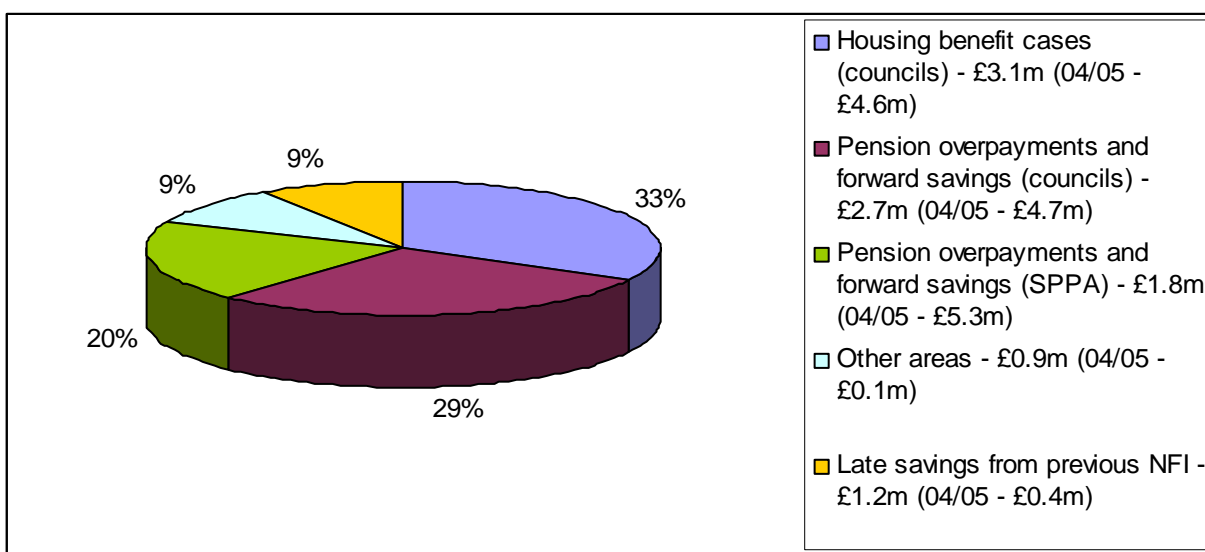
40. The Joint Board has appropriate arrangements for the prevention and detection of fraud and corruption. These arrangements include a strategy for the prevention and detection of fraud and corruption, written procedures for the investigation of suspected cases of fraud and corruption and a whistle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



NFI in Scotland

41. During 2007/08, we continued to monitor the Joint Board's participation in the 2006/07 National Fraud Initiative (NFI). This exercise is undertaken as part of the audits of participating bodies. NFI brings together data from councils, police and fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated significant savings for Scottish public bodies (£9.7 million from the 2006/07 exercise and £37 million including previous exercises). Where fraud or overpayments are not identified in a body, assurances can usually be taken about internal arrangements for preventing and detecting fraud.
42. Audit Scotland's report on the National Fraud Initiative in Scotland 2006/07, published in May 2008, provided an analysis of the frauds and overpayments of £9.7 million and this is set out in the chart below.

Analysis of savings from the 2006/07 NFI in Scotland





43. The report also highlighted that the level of fraud and error identified from the 2006/07 exercise is about a third less than that reported in the 2004/05 exercise. It suggested the most likely reasons were that:
- 2004/05 NFI was the first significant roll out of NFI for councils in Scotland, and were always likely to be untypical. NFI 2004/05 helped bodies to identify the longest-running frauds and errors; whereas most fraud and error found at the 2006/07 exercise should only have run for two years at most
 - NFI, and other anti-fraud work by bodies, is making an impact in deterring fraud
 - informed by the fraud and error cases identified previously, bodies have made improvements to their systems of control
 - in addition, the Scottish Public Pensions Agency (SPPA) had not completed its investigations at the time of preparing this report and its final results are expected to reduce the difference between the 2004/05 and 2006/07 NFI outcomes.
44. The next NFI exercise will commence in October 2008 and the scope is likely to be similar to NFI 2006/07. NFI 2008/09 will see the addition of online interactive training modules that will make it easier for officers to learn about the application, and how to use it efficiently and effectively, at the times when it best suits them.



Performance

Introduction

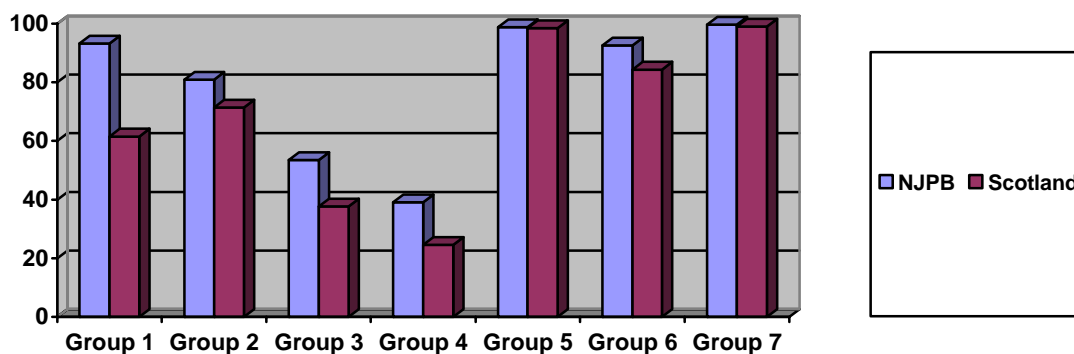
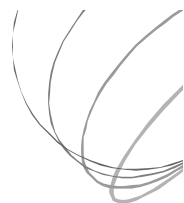
45. In this section we summarise key aspects of the Joint Board's reported performance and provide an outlook on future performance.

Statutory performance indicators

46. The Joint Board has a statutory duty to collect; record and publish specified performance indicators and, so far as is practicable, ensure they are accurate and complete. The Accounts Commission issue a Direction each year detailing the statutory performance indicators (SPIs) that require to be published and external auditors review the Joint Board's arrangements and return details of the indicators, including an opinion on their reliability, to Audit Scotland headquarters to enable compilation of national reports on performance.
47. We assessed all of the Joint Board's statutory performance indicators as reliable. We present a summary of some of the performance indicators below.

Percentage of crimes cleared up

48. The crime groups used to calculate percentages for crimes cleared up were changed for the year to 31 March 2008 so it is not possible to provide comparatives for previous years. However, it is possible to provide compare the Force's percentages of crimes cleared up with Scotland's average percentages of crime cleared up. In all cases the Force has exceeded the Scottish averages.
49. The crime groups are:
- Group 1 – crimes of violence which includes murder, attempted murder, serious assault; robbery and assault with intent to rob; cruelty to children; threats and extortion.
 - Group 2 – crimes of indecency includes rape, indecent assault, lewd and libidinous practices.
 - Group 3 – crimes of dishonesty includes theft such as housebreaking or opening lockfast places, thefts of and from motor vehicles and fraud.
 - Group 4 – vandalism, malicious mischief, fire-raising and reckless conduct.
 - Group 5 – all drug offences, bail offences, and crimes against justice such as perjury.
 - Group 6 – minor offences such as petty assault and breach of the peace, racial conduct.
 - Group 7 – road traffic offences such as speeding, seat belt offences and motor vehicle defects.

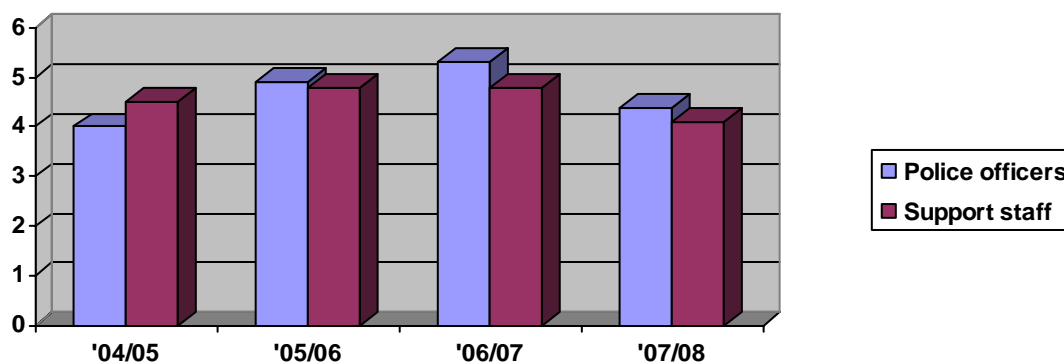


Proportion of 999 calls answered within ten seconds

50. The proportion of calls answered within 10 seconds has significantly improved from 70.1% in 2006/07 to 85.4% in 2007/08 although it is below the Scottish average of 91.4% in 2007/08. The Force had problems due to the introduction, during 2005/06, of a new control room and call handling system. The changes in operating procedures required with the introduction of new technology and ironing out of technical issues had impacted on performance in 2006/07. We were advised that performance is continuing to improve towards the Scottish average.

Proportion of working time lost due to sickness absence

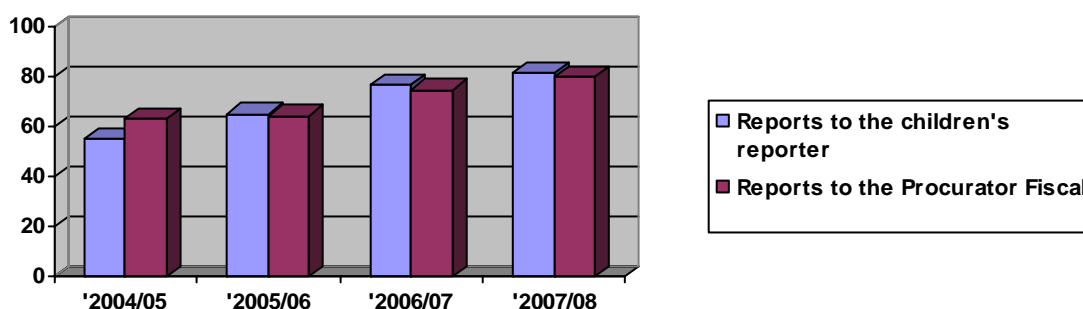
51. The level of absence for police officers has fallen from 5.3% in 2006/07 to 4.4% in 2007/08. This improvement compares well with the 2007/08 national average of 4.7%. The level of absence for support officers has also fallen from 4.8% in 2006/07 to 4.1% in 2007/08. This improvement compares well with the 2007/08 national average of 5.4%.





Reports sent to the children's reporter and the Procurator Fiscal

52. The percentage of police reports sent to the children's reporter within 14 days of caution/charge has increased from 55.4% in 2004/05 to 81.4% in 2007/08. The 2007/08 national average was 86.8%. The percentage of police reports sent to the Procurator Fiscal within 28 calendar days of caution/charge has increased from 63.4% to 80% in 2007/08. The 2007/08 national average was 85.1%. Both indicators demonstrate good progress by the Force over the years from 2004/05 to 2007/08 although there is some scope to move towards the national average in each.



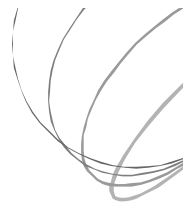
Performance outlook – opportunities and risks

Force Review

53. A Force Review Project was initiated in April 2006 with the aim of improving delivery of policing services, reducing bureaucracy and enhancing operational capacity and capability. Recommendations from the review covered streamlining information management, adapting modern IT and communications technology and re-structuring the Force into three major divisions aligned to its local authority areas. It was considered that the model would deliver significant benefits to the Force. Operational benefits include more flexible use of resources and opportunities for collaborative working and efficiency savings through economies of scale achieved by reduction of process duplication in areas such as crime administration. Implementation of the Force re-structuring is on-going and is expected to be completed in the current financial year.

Asset Management

54. Northern Constabulary's 2006/07 Public Performance Report acknowledged there was a need to develop robust asset management plans. The 2007/08 Public Performance Report outlines progress over the year in addressing this need with the main focus being on estate and fleet assets. The report indicates this work will link into the development of prudential indicators to help deliver more focussed capital and revenue planning.



Final Remarks

55. Attached to this report is an action plan setting out the key risks identified by the audit which we are highlighting for the attention of the Joint Board. The action plan sets out management's response to the identified risks.
56. The members of Northern Joint Police Board are invited to note this report. We would be pleased to provide any additional information that members may require.
57. The co-operation and assistance given to us by officers of the Joint Board is gratefully acknowledged.

Audit Scotland
24 October 2008



Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Key Risk Area	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
1	22	<p>Transfer of houses</p> <p>The Joint Board must ensure that all legal and financial implications are taken into consideration to ensure the smooth transfer of its housing stock to registered social landlords.</p> <p>Risk: the transfer of the housing stock is subject to legal or financial challenge.</p>	<p>The Joint Board has and continues to take legal advice to ensure compliance with legislation.</p> <p>Joint Board members will continue to receive regular reports on the financial implications of stock transfer.</p>	Director of Finance	June 2009
2	37	<p>Governance</p> <p>There are instances of insufficient segregation of duties in respect of the accounts payable system.</p> <p>Risk: failure to comply with Financial Regulations.</p>	<p>The establishment of business management units as part of the Force review will provide scope for increased segregation of duties.</p>	Not required.	Not required.
3	37	<p>Governance</p> <p>The register of authorised signatories may not be kept up to date due to changes brought about by the Force's re-structuring.</p> <p>Risk: financial transactions may not be properly authorised by an appropriate officer.</p>	<p>The authorised signatories list is considered to be up-to date. As a result of structural changes arising from the Force Review, Financial Regulations and authorised signatories will be revised as appropriate.</p>	Director of Finance	Ongoing
4	37	<p>Governance</p> <p>There is no formal policy in place for impairment review of fixed assets.</p> <p>Risk: failure to comply with the Statement of Recommended Practice.</p>	<p>The Force has a rolling programme of condition surveys which includes considering the possible impairment of the Force estate.</p>	Director of Finance	Ongoing