

# Strathclyde Police Authority

## Annual Report to the Strathclyde Police Authority and the Controller of Audit



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The principal objective of our audit procedures is to enable us to express our opinion, in line with the requirements of the Audit Scotland Code of Audit Practice, on the financial statements as a whole. Our audit opinion does not guarantee that the financial statements are free from misstatement.

Any oral comments made in discussions with you relating to this report are not intended to have any greater significance than explanations of matters contained in the report. Any oral comments that we make do not constitute oral advice unless we confirm any such advice formally in writing.

The matters raised in this and other reports that will flow from the audit are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising, and in particular we cannot be held responsible for reporting all risks at the Authority or all internal control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

# 1. Introduction

## Purpose of this report

The Annual Report which follows is primarily designed to direct your attention to matters of significance that have arisen out of the 2008/09 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

## Scope of the Audit

Our overall responsibility as external auditor of the Strathclyde Police Authority ('the Authority') is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in March 2007. In this regard, the Code sets out the need for public sector audits to be planned and undertaken from a wider perspective than in the private sector involving not only assurance on the financial statements but also consideration of areas such as regularity, propriety, performance and the use of resources.

Our audit has been planned and conducted to take account of these wider perspectives.

Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260: "*Communication of audit matters to those charged with governance*", we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity.

This Annual Report to the Authority, together with previous reports to the Audit Committee throughout the year, discharges the requirements of ISA 260.

Set out below for information is a summary of our responsibilities as your external auditors and the responsibilities of the Members of Strathclyde Police Authority and the Treasurer.

| Responsibilities of the Treasurer and the Members of Strathclyde Police Authority  | Responsibilities of External Audit   |
|--|--|
| <ul style="list-style-type: none"><li>• Ensuring proper administration of the Authority's financial affairs;</li><li>• Managing the Authority's affairs to secure economic, efficient and effective use of resources and safeguard its assets;</li><li>• Selecting suitable accounting policies and applying them consistently;</li><li>• Making judgements which are prudent, and estimates which are reasonable and prudent in line with the CIPFA/LAASAC Code of Practice on local authority accounting in the United Kingdom;</li><li>• Maintaining proper accounting records.</li></ul> | <ul style="list-style-type: none"><li>• Issuing an audit report (opinion) on whether the financial statements give a true and fair view of the financial position of the Authority and its group as at 31 March 2009, and its income and expenditure for the year then ended;</li><li>• Determining whether the financial statements have been prepared in accordance with the Local Government (Scotland) Act 1973.</li></ul> |

## Acknowledgment

We would like to formally extend our thanks to all managers and staff for the assistance they have given us during the audit process.

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September 2009

## 2. Executive Summary

### Audit Opinion and Accounting Issues (Section 3)

Our audit opinion concerns the presentation of Strathclyde Police Authority's financial position as at 31 March 2009 and its income and expenditure for the year then ended.

Our opinion on the true and fair view of the financial statements is **qualified**.

This qualification is restricted solely to the way in which the Board has accounted for employer's pension costs. Scottish Government regulations generally require that the difference between retirement benefit costs as calculated under FRS 17 and the Board's actual employer's pension contributions is charged to the Pensions Reserve. However, no regulation is currently in place to permit this in respect of the New Police Pension Scheme which commenced from 6 April 2006.

Although the Scottish Government intends to amend the regulations to include this scheme, there is no statutory basis for removing the FRS 17 based costs from the General Fund in respect of the new scheme at the date these financial statements were authorised for issue. However, relying on the intended amendments to the Regulations, the Board has removed FRS 17 costs amounting to £6.7 million in 2008/09 and £4.5 million in previous years from being a charge to the General Fund meaning the balance on that Fund as at 31 March 2009 is overstated by £11.2 million.

Further details of this matters is provided in Section 3.

### Financial Performance 2008/09 (Section 4)

For the year ended 31 March 2009, the Authority reported an overall deficit of £179.6 million (£217.3 million in 2007/08) on its Income and Expenditure Account. After adjusting this in-year deficit to reflect the necessary statutory and non statutory adjustments through the Statement of Movement on the General Fund Balance, the Authority has recorded a surplus of £0.6 million in the year.

### Financial Forecasts for 2009/10 (Section 5)

The Authority is forecasting net expenditure of £583.2 million for 2009/10. In order to deliver a balanced budget the Authority has incorporated significant efficiency savings into its 2009/10 budget, as well as the application of £4 million from the general fund reserves.

### Governance and Business Risks (Section 6)

The findings from our consideration of the Authority's governance arrangements were reported in our 2008/09 Interim Management Letter. In overall terms, the Authority has appropriate arrangements in place.

The governance framework remained unchanged in 2008/09. However, as the Authority has settled into its role, it has strengthened its scrutiny of the Force's executive through more robust questioning and monitoring. In addition, the Authority has taken a more pro-active role in the development of the 2008/09 Police Control Strategy, and had significant input into the process, especially in the area of Community Policing.

## Systems of Internal Financial Control (Section 7)

The Code of Audit Practice requires us to review and report on the Authority's Statement on Internal Financial Control. Based on our normal audit procedures, we do not disagree with the disclosures contained within the Statement on Internal Financial Control.

Audit Scotland requires us to review the progress being made by the Authority regarding the investigation of matches that were identified as a result of the 2008/09 National Fraud Initiative (NFI) exercise. A review of progress up to 31 July 2009 identified that the Authority has made good progress regarding the investigation of matches.

## Recommendations

Where appropriate, we have made recommendations for improvement. These are summarised in Appendix A along with management's responses

# 3. Audit Opinion and Accounting Issues

## Audit Opinion

The Local Government (Scotland) Act 1973 requires that, following the completion of an audit, the external auditors shall place on the abstract of accounts a certificate which sets out the basis on which they have formed their audit opinion. Our opinion on the accounts states whether the financial statements:

- give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, of the financial position of the Authority and group as at 31 March 2009 and its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Our opinion for the year end 31 March 2009, which is in the format prescribed by the Accounts Commission for Scotland is **qualified**.

This qualification is restricted solely to the way in which the Board has accounted for employer's pension costs and is on the basis that the General Fund is overstated by £11.2 million as a result of the accounting treatment adopted by the Board.

Financial Reporting Standard 17 (FRS 17) states that retirement benefits should be recognised when the Board is committed to providing them, even if the actual payment will be many years in the future. As such the FRS 17 calculation requires the estimation of future liabilities, stated at current

values, and the valuation of any existing pension scheme assets.

Whilst the Board is required to apply FRS 17 the Scottish Government introduced regulations in 2003 that requires that the difference between retirement benefit costs as calculated under FRS 17 and the Board's actual employer's pension contributions is charged to the Pensions Reserve. No regulation is currently in place to permit this in respect of the New Police Pension Scheme which commenced from 6 April 2006.

Although the Scottish Government intends to amend the regulations to include this scheme, there is no statutory basis for removing the FRS 17 based costs from the General Fund in respect of the new scheme at the date these financial statements were authorised for issue. However, relying on the intended amendments to the Regulations, the Board has removed FRS 17 costs amounting to £6.7 million in 2008/09 and £4.5 million in previous years from being a charge to the General Fund meaning the balance on that Fund as at 31 March 2009 is overstated by £11.2 million.

## Financial Carry Forward

The Police and Fire Services (Scotland) Act 2001 makes provision for the Authority to carry forward unspent balances each financial year within prescribed limits. The surplus carried forward into the future year by the Authority must not exceed 3% of the contributions (precepts and police grant) received from the Authority's twelve constituent local authorities and the Scottish Government. In addition, the cumulative balance (being the in year surplus including the existing general fund but excluding the pensions commutations reserve) carried forward into future years should not exceed

5% of the local authority precepts and police grant received in year, unless specific consent is obtained from the Scottish Government. The Authority's performance against these limits for the year ended 31 March 2009 was:

| Financial Limits            | Outcome  |
|-----------------------------|--|
| 3% in year carry forward    | The Authority's in year carry forward totalled £0.598 million, representing 0.11% of the police grant and constituent authority contributions.   |
| 5% cumulative carry forward | The Authority's cumulative carry forward into 2009/10, excluding the pension commutations reserve, is £25.464 million, representing 4.56% of the police grant and constituent authority contributions. |

## Audit Process

The financial statements and supporting schedules were presented to us for audit within the agreed timetable. The quality of working papers provided by management was of a good standard. In addition, the quality of the draft financial statements was high, reflecting the robustness of the internal review process. Overall an efficient audit process was achieved and we consider that an effective working relationship exists with your staff.



## Audit Adjustments

Under ISA 260 - "Communication of audit matters to those charged with governance" - we are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those which we deem to be of a trivial nature.

We are pleased to report that during the course of our audit no material adjustments were identified in our audit of the financial statements. One minor financial adjustment and a number of disclosure amendments were discussed with management and have been adjusted in the financial statements.

## Going Concern

The Authority's balance sheet has an excess of liabilities over assets of £2,971 million (2007/08 £2,836 million) due to the accrual of pension liabilities. An excess of liabilities over assets is one of the indicators that may suggest concerns regarding the ability of an organisation to continue as a going concern. Therefore in accordance with International Standards on Auditing ("ISA") 520 we have considered whether the Authority is entitled to prepare its financial statements on the going concern basis.

The Authority has adopted the going concern basis for the preparation of its financial statements as the pensions liability does not impact on its underlying ability to meet its current and ongoing commitments. Future pension payments will be made as they fall due from contributions from constituent authorities and the Scottish Government specific grant.

Formal representations have been obtained from management in this regard and we agree with the basis of preparation of the accounts.

## Accounting Issues

A number of accounting issues were discussed with management during the audit as follows:

### Introduction of the Asset Manager system

The Authority introduced a new automated Fixed Asset Register system during 2008/09 to replace the previous spreadsheet based register. We worked with management throughout the process and performed additional audit work on the reconciliation between the balances on the old and new systems to ensure that the data migration process had been successful. There were a number of reconciling items which arose as a result of minor differences between the calculations performed by the system and the calculations previously performed manually. These differences have been corrected. This means that the financial statements, general ledger and fixed asset register are all in agreement.

### National Police Authority Assets

As reported in our Interim Management Letter 2008/09, the Authority was appointed as the lead to create an infrastructure asset that allows all eight Scottish Forces to connect and use National Applications on a resilient platform. This asset was previously held solely on the Authority's balance sheet. However, it was agreed that because each Police Authority effectively had a financial stake in the asset, and each had input into the development of the asset, it should be divided amongst each Authority and be included on their balance sheets. This has resulted in the transfer of £1.2 million of fixed assets that were previously held on the Authority's balance sheet.

Grampian Police has taken the lead on a Performance Management asset which has also been jointly funded and will be used by all eight Police Authorities. As a result the Authority has included its £1.5 million share on the 2008/09 balance sheet.

## FRS17 Retirement Benefits

Due to a revision of pensions disclosure standards, which impact upon the figures in the Income and Expenditure Account, it was necessary to restate the prior year figures in order to allow a meaningful comparison.

Furthermore, the introduction of revised pension commutation factors, which was required to be backdated to 2007/08 changed the movement on pension reserves and the resulting gain for 2007/08. The prior year comparatives have been adjusted to incorporate this change.

As a result of this, and to ensure clarity of the financial statements, a detailed note to the accounts has been created to explain the movement in the prior year comparatives as a result of pension commutation factors and pension disclosures changes.

## International Financial Reporting Standards (IFRS)

The Chancellor's announcement in the 2008 Budget introduced the requirement for local government bodies to adopt IFRS for 2010/11, including the restatement of 2009/10 comparatives. The objective is to bring the public sector into line with the private sector, and to introduce greater comparability and consistency across public sector accounting. Central government bodies and NHS Boards are one year ahead of local authorities in this process, and had to produce a re-stated IFRS compliant balance sheet as at 31 March 2008 by the end of November 2008, and are now required to produce full shadow IFRS accounts by 30 September 2009. This exercise has shown that those organisations which have planned adequately and dedicated sufficient resources to this project are now best placed to produce shadow accounts by the end of September.

It has been announced that local authorities, including Police and Fire authorities, will be required to produce a re-stated IFRS compliant opening balance sheet as at 1 April 2009 by the end of February 2010. Strathclyde Police Authority has signed up to the CIPFA and PwC IFRS advisory service in order to assist with this project.

## 4. Financial Performance 2008/09

The table below summarises the financial performance for 2008/09.

|   | £000     | £000             |
|---|----------|------------------|
| Gross Expenditure   | 585,211  |                  |
| Gross Income  | (92,637) |                  |
| <b>Net Cost of Services</b>   |          | <b>492,574</b>   |
| <b>Net Operating Expenditure</b>  |          | <b>697,089</b>   |
| (including impact of loss on disposals, interest receivable & payable and pension interest costs and returns on assets) |          |                  |
| <b>Funded by:</b>   |          |                  |
| Police Grant & Precepts from Constituent Authorities  |          | <b>(517,459)</b> |
| <b>Income &amp; Expenditure deficit for the year</b>  |          | <b>179,630</b>   |
| <b>Amount required to be credited to the general fund balance</b>   |          | <b>(180,228)</b> |
| <b>(Increase) in the General Fund balance</b>   |          | <b>(598)</b>     |

### Revenue Expenditure

For the year ended 31 March 2009, the Authority reported an overall deficit of £179.6 million (£217.3 million in 2007/08) on its Income and Expenditure Account. After adjusting this in-year deficit to reflect the necessary statutory and non statutory adjustments through the Statement of Movement on the General Fund Balance, the Authority has recorded a surplus of £0.6 million in the year resulting in the General Fund increasing from £40.7 million in 2007/08 to £41.3 million in 2008/09.

Management had planned to utilise £3.3 million of the General Fund reserves during 2008/09 in order to achieve a balanced budget. Therefore the actual outturn position of a £0.6 million surplus represents an overall under-spend against the budget of £3.9 million. A decision was taken in late 2008 to maintain this level of under-spend through to the year end given the financial challenges faced for 2009/10. The 2008/09 financial performance has ensured that the £4 million budgeted to be utilised from the general fund in 2009/10 will only reduce the overall general fund balance by £0.1 million more than originally forecast budgeted for at the end of 2008/09.

The main reason for the under-spend in 2008/09 was the re-phasing of the recruitment of new officers, which occurred later in the year than had originally been budgeted.

## Capital expenditure

The Authority has a three year capital programme which covers the period from 2008-2011 and was approved by the Board on 9 October 2008. During 2008/09 there was an under-spend on capital expenditure of £3.2 million against the 2008/09 capital programme. The main areas of under-spend were:

- £1.3 million – Equipment. There has been a lower than anticipated spend as a result of uncertainty over the arrangements in place regarding ICT spend which impacted upon equipment purchases/contingency.
- £0.9 million – Building Works. There was slippage in the building programme during 2008/09.
- £0.7 million – ICT. There has been uncertainty over the future arrangements for funding ICT assets given the role SPSA in delivering ICT services. However, this will be addressed through the finalisation of the Agency Agreement which will formalise arrangements for the procurement of ICT assets.

As reported in the 2008/09 Interim Management Letter, the Authority plans to undertake significant capital investment in land and buildings in the next three years, with the building of several new sub-divisional headquarters and an upgrade to the prisoner custody facilities within Strathclyde. The programme exceeds the funding that will be available through grants, reserves and capital receipts so will therefore require an element of prudential borrowing to make up the funding shortfall. Previous estimates suggested £18.5 million over 2009/10 and 2010/11. This is within the Authority's current prudential borrowing framework and management is confident that this is affordable.

The Capital Programme is currently being revised and it is anticipated that an update will be presented to the Authority in September 2009 with amendments to the Capital Programme for future years. This may impact upon its borrowing requirements.

## Capital expenditure National Fixed Asset Projects

The table below details the spend to date and the remaining spend on those assets that are being produced for the benefit of, and are being funded by, all of the eight Scottish Police Authorities.

As discussed in the accounting issues section, the Authority has taken the lead on the National Infrastructure Programme, which as the table below shows is almost fully completed in terms of the spend.

Grampian Police has taken the lead of the Performance Management Platform which still has a future budget of £1.6 million. This will result in the Authority accounting for a further £0.7 million of assets in future years.

The Central Command & Control project is being led by Tayside Police and it is estimated that the Authority will account for approximately £3.7 million of this asset in the forthcoming years.

| Project                           | Spend to Date<br>£000 | Future Years<br>Spend<br>£000 | SJPB 45.6%<br>share of Future<br>years spend<br>£000 |
|-----------------------------------|-----------------------|-------------------------------|--|
| National Infrastructure Programme | 4,973                 | 820                           | <b>374</b>   |
| Performance Management Platform   | 3,700                 | 1,600                         | <b>730</b>   |
| Central Command & Control         | 610                   | 8,107                         | <b>3,697</b>   |

# 5. Financial Forecasts for 2009/10

## Financial Forecast for 2009/10

For the purposes of this report, we have summarised the 2009/10 revenue budget, as approved by the Joint Police Board on 20 January 2009, in the table below:

| Description  | Amount (£m) | Amount (£m)           |
|--|-------------|-----------------------|
| <b>Planned net expenditure for year</b>                                |             | <b><u>583.2</u></b>   |
| <b>Funded by:</b>  |             |                       |
| Police Grant   | 271.5       |                       |
| Local Authority Precepts (including £8.8m Additional Pensions Precept) | 267.3       |                       |
| Specific Government Pension Grant                                      | 17.5        |                       |
| Efficiency/Budget savings  | 11.9        |                       |
| Government Underwritten Pension Expenditure                            | 7.9         |                       |
| 2009/10 Additional Transfer Values/pension Contributions               | 3.1         | <b><u>(579.2)</u></b> |
| <b>Net Deficit</b>   |             | <b>4.0</b>            |
| Utilisation of general fund balances                                   |             | (4.0)                 |
| <b>2009/10 budgeted (surplus)/deficit</b>                              |             | <b><u>0</u></b>       |

The Authority has worked hard to achieve a balanced budget for 2009/10, particularly as it is a “spike” year for pension costs. The key aspects of funding are discussed below.

### Police Grant £271.5 million and Local Authority Precepts £267.3 million

The Police grant will rise by 4.3% in 2009/10 to £271.5 million, forming the largest single source of income.

Local Authority precepts will rise by 4% to £267.3 million. This includes an amount of £8.8 million that the constituent authorities have agreed to pay towards the additional pension costs in 2009/10.

### Specific Government Pension Grant £17.5 million and Government Underwritten Pension Expenditure £7.9 million

The additional pension costs in 2009/10 have largely been funded through an additional one off grant from the Scottish Government of £17.5 million, as well as a written guarantee to underwrite a further £7.9 million of potential pension expenditure.

This arrangement, coupled with the additional precept of £8.8 million, has ensured that the Authority is in a position to fund the additional pension costs for 2009/10 without an adverse impact on front line service delivery.

## Efficiency Savings £11.9 million

Management has identified gross efficiency savings of £11.9 million for 2009/10. The most significant of these is in relation to the Headquarters reviews that were undertaken in 2008/09 at the request of the Chief Constable. These reviews resulted in the reduction of 160 supervisory roles across the HQ functions, which were replaced by Police staff or Police officers at a lower grade. This resulted in significant staff cost savings. In addition efficiency savings will be achieved by suspending inflationary uplifts on the 2008/09 budget lines, and by reducing certain allowances budgets as a result of officers retiring from the Force. At present, the Authority is on course to achieve the government's target of 2% efficiency gains in each of the three years of the 2007 Spending Review period.

## Future Pressures

The 2009/10 revenue budget relies on a significant amount of non-recurring income to fund recurring costs (£4 million of carried forward reserves from the general fund and £3.1 million in Additional Transfer Values from the transferred pensions of new recruits). These sources of income will not be available in 2010/11, and management has already identified that the third year of the current spending review period will be extremely challenging in terms of delivering a balanced budget.

### Action Point 1

The abolition of ring-fenced funding for policing within local authority budgets has increased the level of uncertainty for all eight Scottish Police Authorities regarding the future levels of resources that will be available. Given the current economic climate, and the impact that this will have on local authority income streams, there is an increased risk that funding for policing will be under pressure from local authorities. It is therefore important for the Authority to secure its precept income and start the planning process as early as possible for the 2010/11 financial year.

# 6. Governance and Business Risks

As part of our audit we have considered the following aspects of the Authority's management arrangements:

- Overall Governance
- Community Planning and Partnership Working
- Financial Management
- Performance Management
- People Management

We have also reported in detail on a number of these areas in our Interim Management Letter (IML) for 2008/09 submitted to the Audit sub-committee on 21 May 2009.

## Overall Governance

The Authority has a well established governance framework which has remained largely unchanged during 2008/09.

As reported in our 2008/09 Interim Management letter a Scrutiny Working Group was established by the Members, with a remit to review the functions of the Committees of the Authority with regard to scrutiny and performance monitoring.

The Clerk to the Authority is due to retire and will be replaced by someone in

the newly created post of Chief Executive. It is important an appropriate handover process is followed to minimise potential disruption to the Authority's governance arrangements.

## Action Point 2

## Community Planning and Partnership Working

Community Planning and Partnership Working have grown in importance since the introduction of the Local Government in Scotland Act 2003 which provided a statutory framework for this process. The Authority is a key partner in Community Planning and has demonstrated its commitment to Partnership Working through its participation in each of the Community Planning Partnerships with the 12 constituent local authorities.

Every local authority was required to produce a Single Outcome Agreement (SOA) for 2008/09 committing them to work towards achieving 15 national outcomes. Although a number of the outcomes require local authorities to work with community planning partners, such as outcome 9 – "*We live our lives safe from crime, disorder and danger*" which requires input from Police Authorities, the process was largely driven by the councils. However, the 2009/10 SOAs will be community based agreements, and as such, this has required a higher level of partnership working, and buy-in from all key stakeholders, including the Authority.

As reported in our 2008/09 Interim Management Letter, the approach taken by the Authority has been to allow Divisional Commanders to negotiate with Planning Partners within each local authority area, with the aim of aligning the Authority's five policing priorities to the SOAs. The Divisional

Commanders are supported by a team at Headquarters who offer advice, and ensure a level of consistency in policing input across the local authority areas. However, the Members of the Authority have had no input in the process, and have not reviewed the agreements that the Force is signing up to at a local level with its community partners. The move to community based SOAs will have an impact on operational policing within different local authority areas, and as part of the Authority's overall governance review, consideration will be given as to how the elected Members can play a more formal role in this process.

### Action Point 3

The Tripartite agreement between the Authority, Strathclyde Fire and Rescue and the Scottish Ambulance Service is also now in place. This involves collaboration in terms of fleet services, such as the sharing of vehicle workshops helping to generate savings.

## Financial Management

Management receives detailed financial information at the end of each four week period as part of the Authority's financial management arrangements. Management Accountants liaise with budget holders to analyse the management reports and interpret key variances against budgets. The outcomes of the monthly reviews are consolidated into monthly financial management reports which are prepared for the Authority's Members and the Force Executive. The information produced and frequency of reporting ensures decision makers have appropriate information on which to base decisions.

## Performance Management

The Authority has established robust performance management arrangements. As well as fulfilling statutory performance reporting commitments, the Continuous Improvement Unit within the Corporate Planning and Development department produces tailored performance information to assess the Authority's progress towards achieving its strategic and organisational objectives. This performance information is made available to the Performance Board which comprises of Force Executive officers. In addition, the Authority receives performance information on a quarterly basis. The measures reported upon to the Authority are benchmarked over the previous 5-year period in order that continuous improvement can be demonstrated.

The Authority has recently reviewed the performance information it receives as part of the governance arrangements review undertaken by the Scrutiny Working Group. As a result of this exercise, it is expected that the Members of the Authority will receive a more streamlined report from 2009/10 with a focus on the areas of policing that are of most interest, namely community policing and low level crime and disorder.

The Authority has a strong history of providing the public with good performance information, which is available on the Authority's website, or in hard copy upon request. The 2008/09 Chief Constable's Annual Report provides the user with a good high-level overview of the Authority's performance for the year with a narrative that covers each of the Authority's Very High Priority areas. This document is supplemented with a further document that contains detailed statistics on all areas of the operational performance of the Authority.

The Scottish Policing Performance Framework (SPPF) was introduced across Scotland in April 2007 with the aim of providing a consistent national model for the measurement and reporting of performance information.



Although the framework is at an early stage of development, the Authority is committed to working collaboratively with the other Scottish Police Authorities and relevant agencies to ensure a consistent approach is adopted nationally which will support a better understanding of policing performance overall.

### Statutory Performance Indicators

As in prior years, the Authority has been required to prepare its nine Statutory Performance Indicators (SPIs) which are submitted to Audit Scotland by 31 August 2009 with an accompanying opinion from us as to the reliability of the information. Internal Audit undertook audit work on each SPI in accordance with the guidance issued by Audit Scotland. We have reviewed the work of Internal Audit and are able to replace reliance on it thereby reducing any duplication of effort. We are happy to report that we have raised no concerns regarding the Authority's arrangements for collecting and recording the information required to prepare the SPIs.

For 2009/10 there will be a requirement to audit the information contained within the SPPF which includes significantly more performance information than is currently required under the existing arrangements. We will liaise with Internal Audit to identify and agree upon an appropriate work plan in response to these changes for 2009/10.

### People Management

#### Single Status and Equal Pay

The Authority has been working towards implementing single status for approximately six years. A full job evaluation process has been completed for all Police staff and a proposed pay and grading structure has been developed. This will affect approximately 2,500 and it is expected that Single Status will begin to be implemented during 2009/10. It is expected that the cost of implementing single status will be in the region of £3 million - £3.5 million per annum. This amount has been fully budgeted for within the Authority's base revenue budget for a number of years, and a provision was included in the 2008/09 financial statements for Single Status, in order to

meet the Authority's obligation to backdate pay to October 2008 for those affected.

#### Sickness Absence

The Authority continues to be proactive in addressing sickness absence with a number of initiatives implemented during 2008/09 to improve absence rates. The Corporate Attendance Management (CAM) Team is responsible for overseeing the Authority-wide implementation and effective application of the new Standard Operating Procedures (SOP) for Positive Attendance Management, Stress Management and Prevention and Disability in Employment in order to maximise attendance and reduce ill health. Ongoing absence management arrangements have helped control the number of work days lost during 2008/09 following the introduction of the new Positive Attendance Management procedure and subsequent training for line managers that included:

- Awareness briefings
- Benchmarking
- Training
- Health Promotion
- Governance and Accountability
- Rehabilitative / Restricted duties
- Redeployment SOP
- Promoting awareness

The successful implementation of Positive Attendance Management is essential if the Authority is to reduce its absence levels to below the agreed national target. However, the average sickness absence rate for 2008/09 has improved on the prior year, being 5.1% for Police Officers (2007/08: 5.3%) and 5.6% for Police staff (2007/08: 6.3%).

# 7. Systems of Internal Control

## Statement on Internal Financial Control

The Code of Audit Practice requires us to review and report on the Authority's Statement on the System of Internal Financial Control.

The Authority has used the correct format for its Statement and has outlined the processes it has employed to identify and evaluate risks. In addition, key elements of the Authority's control framework have been highlighted. These include:

- Appropriate budgeting systems;
- Regular reviews of periodic and annual financial reports which indicate financial performance against the forecasts;
- Setting targets to measure financial and other performance;
- The preparation of regular financial reports which indicate actual expenditure against the forecasts;
- Define capital expenditure guidelines; and
- As appropriate, formal project management disciplines.

Based on our normal audit procedures, we do not disagree with the disclosures contained in the Statement.

## Systems of Internal Control

We are required under ISA 260 to report to you any material weaknesses in the accounting and internal control systems, including general computer controls, identified during the audit. The results of our work on systems of internal control were communicated to the Audit sub-committee in our Interim Management Letter on 21 May 2009.

The report contained 9 recommendations to improve controls, all of which were graded as *medium* or *low* risk.

An action plan detailing those individuals responsible for implementing our recommendations and the timetable for completion has been completed and we will follow up during our 2009/10 audit.

## Follow up of outstanding recommendations

Our Follow Up Report of the Authority's progress in implementing recommendations made in the prior year was considered at the Audit sub-committee meeting on 21 May 2009.

At the time of reporting, of the 29 agreed actions, progress was as follows:

| Status                          | Interim Management Letter 2007/08 | Follow Up Report 2007/08 | Annual Report to Members 2007/08 | Total     |
|---------------------------------|-----------------------------------|--------------------------|----------------------------------|-----------|
| Action Implemented              | 11                                | 2                        | 1                                | 14        |
| Action in Progress              | 3                                 | 4                        | -                                | 7         |
| Limited/Little Progress to Date | 1                                 | -                        | -                                | 1         |
| Date not yet Passed             | 5                                 | -                        | 2                                | 7         |
| <b>Total</b>                    | <b>20</b>                         | <b>6</b>                 | <b>3</b>                         | <b>29</b> |

## Internal Audit

The Authority's internal audit function is provided by an experienced in-house team. During the year we placed reliance on a number of reports produced by internal audit which were directly relevant to our work as follows:

- Budgetary control;
- Risk management; and
- Payroll.

These reviews uncovered no fundamental areas of control weakness. In addition to this, we placed reliance on the audit work performed by Internal Audit in relation to all nine Statutory Performance Indicators which are required to be submitted to Audit Scotland by 31 August 2009.

We would like to thank Internal Audit for their assistance and cooperation throughout the external audit process.

## Prevention and Detection of Fraud and Corruption

We have reviewed certain elements of the Authority's arrangements for the prevention and detection of fraud and corruption, through discussion of key risk areas with senior management and internal audit as well as reviewing associated controls and selected documentation.

Our enquiries of management and our testing of financial records, which includes an element of unpredictability, did not reveal any illegal or possible illegal acts. However, improper conduct is usually carefully concealed and consequently, the probability is not high that our regular audit work, however diligently performed, will bring it to light.

## National Fraud Initiative

The Authority has taken part in the National Fraud Initiative (NFI) in Scotland programme. NFI brings together data from health bodies, Councils, police and fire rescue 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. As at November 2008, the 2006/07 NFI project has identified £13 million of fraud and error in the Public Sector in Scotland, and in total, NFI in Scotland has identified over £40 million since it was introduced in the early 2000s.

As external auditors to the Authority, we are required to monitor the progress in investigating the matches that have been identified. We are pleased to report that good progress has been made by the Authority in investigating its matches on the NFI database. The only matches that now require investigation are in relation to the Payroll to Companies House matches.

# Appendix A – Action Plan

| Ref | Issue and Recommendation   | Management Response   |
|-----|--|---|
| 1   | <p>The 2009/10 revenue budget relies on a significant amount of non-recurring income (£7.1 million). This will come from the £4 million of carried forward reserves from the general fund and £3.1 million in Additional Transfer Values from the transferred pensions of new recruits. These sources of income will not be available in 2010/11, and management has already identified the third year of the current spending review period to look extremely challenging in terms of delivering a balanced budget.</p> <p>Management within the finance department should commence dialogue with the budget holders early in 2009/10 with regard to raising awareness of the financial outlook in 2010/11 and to identify recurring savings within divisions in order to help assist with the preparation of a balanced revenue budget for 2010/11. <i>(Medium Risk)</i></p> | <p><b>Management Response:</b> The process for preparing the 2010/11 revenue budget will begin with a paper being presented to the Authority in August 2009 detailing the issues facing the organisation for 2010/11. Management is aware of reliance placed on non-recurring savings in 2009/10 to produce a balanced budget and will work with all stakeholders during the 2010/11 process to achieve the best possible outcome.</p> <p><b>Responsible Officer:</b> Allan Macleod</p> <p><b>Due Date:</b> 31 March 2010</p> |
| 2   | <p>The Clerk to the Joint Board is due to retire shortly and will be replaced by someone in the newly created post of Chief Executive.</p> <p>An appropriate handover process should be followed to minimise disruption to the Authority's governance arrangements. <i>(Medium Risk)</i></p>   | <p><b>Management Response:</b> The new Chief Executive will take up post on 29 September 2009, the day before the Clerk retires. However, during August and September a programme of meetings is being put in place to ensure that the Chief Executive is made fully aware of relevant current matters before taking up his appointment on 29 September.</p> <p><b>Responsible Officer:</b> Mike Blair</p> <p><b>Due Date:</b> 29 September 2009</p>  |

| Ref | Issue and Recommendation   | Management Response  |
|-----|--|--|
| 3   | The Authority should consider the role of elected members in the agreeing the community based SOAs with local authority partners. <i>(Medium Risk)</i> | <p><b>Management Response:</b> It is the intention of the Authority to proceed with a programme which will engage Authority members, as local members, with the development of local policing initiatives within their local authority areas, and with the development of the local policing input into the local single outcome agreements. The initial phase is currently commencing in "N" division.</p> <p><b>Responsible Officer:</b> Mike Blair/Keith Mannings</p> <p><b>Due Date:</b> Ongoing</p> |

### **Freedom of Information Act (Scotland) 2002**

In the event that, pursuant to a request which the institution has received under the Freedom of Information Act (Scotland) 2002 or the Environmental Information Regulations 2004 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), Strathclyde Police Authority ("the Authority") is required to disclose any information contained in this report, it will notify PwC promptly and will consult with PwC prior to disclosing such report. The Authority agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such report. If, following consultation with PwC, the Authority discloses any of this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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