

Police Complaints Commissioner for Scotland

Report on the 2009/10 Audit to Police Complaints Commissioner
for Scotland and the Auditor General for Scotland

December 2010



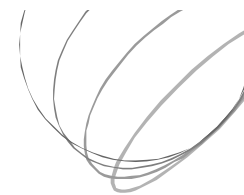
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Key messages

In 2009/10 we looked at the key strategic and financial risks being faced by the Police Complaints Commissioner for Scotland (PCCS). We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

Financial statements

We have given an unqualified opinion on the financial statements of PCCS for 2009/10. We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers.

Financial position and use of resources

Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight. It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known. Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available. In the current economic climate difficult decisions will have to be made across the public sector about priority spending programmes.

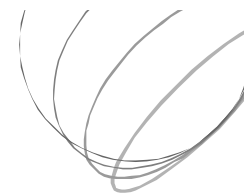
For 2009/10 PCCS incurred a deficit of £95,000, which is the difference between the expenditure for the year of £1.163 million and the funding received from the Scottish Government of £1.068 million. This deficit was funded from cash reserves and does not impact funding for 2010/11.

The budget settlement for 2010/11 of £1.031 million represents a 3% reduction on the level of funding available in 2009/10. This represents a reduction in real terms for PCCS. The challenge for the management team will be to identify solutions to continue to deliver high quality services with fewer resources. We will continue to monitor the developments in this area during 2010/11.

Governance and accountability

Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. Overall the corporate governance and control arrangements for PCCS operated satisfactorily during the year, as reflected in the Statement on Internal Control.

We examined the key financial systems which underpin the organisation's control environment. We concluded that financial systems and procedures operated sufficiently well to enable us to place reliance on them.



PCCS established a new Audit and Accountability Committee during 2010/11, consisting of independent non-executive members. It is understood that the committee will have a remit similar in nature and scope to an Audit committee found within other Non Departmental Public Bodies. This is a welcomed addition to the governance arrangements established within PCCS.

Performance

Overall, the workload of PCCS has increased in 2009/10 when compared to previous years. A total of 396 complaints were received, giving rise to 133 new 'applications accepted for review' during the year. The greater uptake of the services offered by PCCS is a strong indication that the work of PCCS is becoming more widely known amongst the general public.

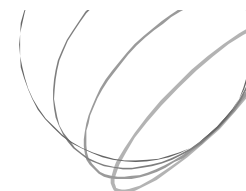
A new Corporate Plan has been published covering the period 2010 to 2013, together with a Business Plan for 2010/11. We will continue to monitor developments in these plans during the course of 2010/11.

Looking forward

The final part of our report notes some key risk areas and issues for PCCS going forward, including national issues relating to reduced budgets. PCCS has embraced the concept of working in partnership in many aspects of current service delivery, however has limited flexibility within resource budgets to address rising costs of that service. Therefore the challenge for PCCS is to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives. We will continue to monitor financial planning arrangements and PCCS's financial position.

The assistance and co-operation given to us by senior management and staff during our audit is gratefully acknowledged.

**Audit Scotland
December 2010**



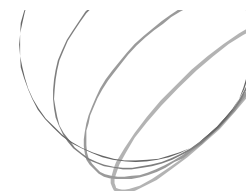
Introduction

1. This report summarises the findings from our 2009/10 audit of PCCS. The scope of the audit was set out in our Audit Plan in accordance with the Code of Audit Practice, which was issued to the Accountable Officer on 17 March 2010. This plan set out our views on the key business risks facing the organisation and described the work we planned to carry out on financial statements, performance and governance.
2. Best value duties apply across the public sector and are a formal duty on all accountable officers. Audit Scotland has adopted a generic framework for the audit of best value across the public sector and this has been further developed during 2009/10 with the completion of its bank of best value Toolkits which, although primarily designed for audit use, are available to all public bodies for reference.

Exhibit 1: Framework for a best value audit of a public body

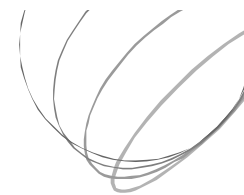


3. A linked development here has been the Scottish Government's work to refresh its 2006 best value Guidance for Public Bodies. This latter initiative, due for issue later in 2010, will result in clearer guidance to public bodies, and particularly those in the Central Government and Health sectors, on



securing continuous improvement in performance, with due regard to the balance between cost and quality.

4. Throughout this report we comment on aspects of PCCS arrangements in this area. Our comments are made on the basis of information made available in the course of the annual audit. We do not make an overall best value judgement because we do not yet have enough evidence to conclude on all relevant areas. Our intention is to build up the corporate assessment over time. This report represents a further step towards that goal.
5. Another building block for our assessment of best value is the national study programme carried out by Audit Scotland on behalf of both the Auditor General for Scotland and the Accounts Commission. Where these have a bearing on the activities, risks or performance of PCCS, we make reference to these reports in this document. Full copies of the study reports can be obtained from Audit Scotland's website, www.audit-scotland.gov.uk.
6. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by management and staff of PCCS during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website.



Financial Statements

7. In this section we summarise key outcomes from our audit of PCCS financial statements for 2009/10 and the accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available to it and its financial performance in the use of those resources.

Our responsibilities

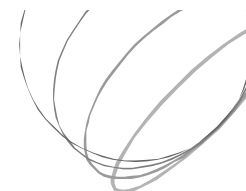
8. We audit the financial statements and give an opinion on:
- whether they give a true and fair view of the financial position of PCCS and its expenditure and income for the period in question;
 - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
 - the consistency of the information which comprises the Management Commentary within the financial statements;
 - the regularity of the expenditure and receipts.
9. We also review the statement on internal control by:
- considering the adequacy of the process put in place by the Director as Accountable Officer to obtain assurances on systems of internal control;
 - assessing whether disclosures in the statement are consistent with our knowledge of PCCS.

Overall conclusion

10. We have given an unqualified opinion on the financial statements of PCCS for 2009/10.
11. As agreed the unaudited accounts were provided to us on 5 July 2010, supported by a working paper package. We concluded our audit and provided our opinion to the Accountable Officer on 27 August 2010.

Issues arising from the audit

12. As required by auditing standards we reported to the Accountable Officer on 25 August 2010 the main issues arising from our audit of the financial statements. The key issues were as follows:



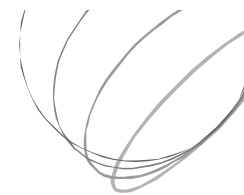
13. There were a few errors within the financial statements arising from the incorrect treatment of prepayments and the identification of non-current asset additions occurring during the year. The errors have been treated as unadjusted as the net impact is not material to the financial statements. PCCS will correct the prepayments in 2010/11 and review procedures for accounting for prepayments and identifying non-current assets. We will continue to work with PCCS on the accounts preparation and audit process for 2010/11.

Regularity

14. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.

International financial reporting standards (IFRS)

15. UK Government departments and other public sector bodies prepared their accounts in accordance with International Financial Reporting Standards (IFRS) for the first time in financial year 2009/10. The transition arrangements to IFRS required bodies to prepare IFRS shadow accounts for 2008/09, including revised opening balances as at 1 April 2008.
16. During 2009/10 we were required to review the shadow accounts and report on them to PCCS by 28 February 2010. The purpose of this exercise was to consider whether the shadow accounts had been properly prepared and report any matters that might prevent them forming a reliable basis for the first set of IFRS based accounts in 2009/10.
17. The shadow accounts and supporting documentation for the 2008/09 financial year were submitted by PCCS for audit for review on the 16 November 2009, ahead of the required deadline date of 30 November 2009.
18. We made some recommendations for the production of the 2009/10 accounts, and considered progress on these when we audited the 2009/10 accounts. These included:
 - Correction of minor presentational errors within the primary statements and associated notes
 - Consideration of additional disclosures relating to operating leases, financial instruments and contingent liabilities to provide clarity to the user of the financial statements.
 - Review of the categorisation and disclosures relating to intangible assets.



Use of Resources

19. Sound management and use of resources (people, money and assets) to deliver strategic objectives is a key feature of best value. This section sets out our main findings from a review of the financial position of PCCS and the main issues identified in our national reports.

Financial Position

Outturn 2009/10

20. PCCS is required to work within its resource budget set by the Scottish Government. PCCS is expected to ensure that, taking one year with another, income from Grant in Aid equals expenditure. For 2009/10 PCCS incurred a deficit of £95,000. This is the difference between the expenditure for the year of £1.163 million and the funding received from the Scottish Government of £1.068 million. This deficit was funded from cash reserves and the Scottish Government have confirmed this has no impact on the 2010/11 budget.
21. PCCS's balance sheet at 31 March 2010 shows net assets of £291,000 (2008/09 net assets of £381,000). The movement is caused by the use of General Reserve to fund the expenditure in excess of Grant in Aid incurred in year.

Scotland's public finances

22. The Auditor General's report on *Scotland's public finances, published in November 2009*, contained an overview of the financial environment in Scotland and the pressures and challenges facing the public sector. The aim of this report was to help to inform the debate on the future of public finances in Scotland. The key messages from this report were:

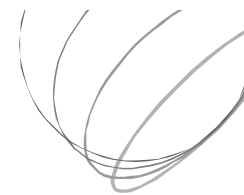
Extract from Auditor General's report *Scotland's public finances*

The public sector is coming under the greatest financial pressure since devolution.

- Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight.
- The Scottish Government and the wider public sector need to work together to develop better activity, cost and performance information. This information is needed to enable informed choices to be made between competing priorities, and to encourage greater efficiency and productivity.

The Scottish Government faces significant challenges in balancing the budget while also delivering on its commitments and meeting increasing demands for public services.

- It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known.



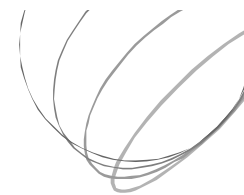
- In many cases, the public sector uses income from various sources to pay for services. Income levels anticipated before the recession are unlikely to be realised, reducing the amount available to spend.
- The Scottish public sector faces significant challenges in balancing its budget while also delivering on its commitments. Changes in Scotland's population and rising unemployment rates will increase demand for public services.
- Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available.

In the current economic climate difficult decisions will have to be made about priority spending programmes.

- The Scottish Government's annual budget is largely developed on an incremental basis which involves making adjustments at the margin to existing budgets. This approach is not suitable for budgeting in a financial downturn because it does not easily allow informed choices to be made about priorities, based on robust information about activity, costs and performance.
- The Scottish Parliament has an important role in scrutinising the government's spending plans. Better information linking spending to costs, activities and service performance, and a rolling programme of performance reviews, would support the Scottish Parliament in fulfilling this role.

Financial sustainability and the 2010/11 budget

23. Scottish Ministers have agreed a resource budget for PCCS of £1.031 million for 2010/11. This will cover both operating expenditure and capital expenditure.
24. The budget settlement for 2010/11 represents a 3% reduction on the level of funding available in 2009/10. This represents a reduction in real terms as PCCS will have to absorb the cost of inflation and any pay increases that are awarded during the forthcoming year from within the allocated resource level. With the number of enquiries received by PCCS and the number of complaints accepted for review increasing year on year, any additional workload for the organisation will have to be delivered within constrained resources. It is acknowledged that this does not recognise the level of complexity of individual complaints, which may lead to additional work having to be undertaken by PCCS staff and therefore affect overall performance and service delivery. In addition, work is developing in other areas of the Commissioner's remit, including setting standards for police complaint handling systems across the country. The challenge for the management team will be to identify solutions to continue to deliver high quality services with fewer resources. We will continue to monitor the developments in this area during 2010/11.



Governance and Accountability

25. High standards of governance and accountability, with effective structures and processes to govern decision-making and balanced reporting of performance to the public, are fundamental features of best value. This section sets out our findings arising from a review of PCCS arrangements.
26. Increasingly services are being delivered across the public sector through partnership working, sometimes involving complex governance and accountability arrangements. Best value characteristics also include effective partnership working to deliver sustained improvements in outcomes.

Overview of arrangements

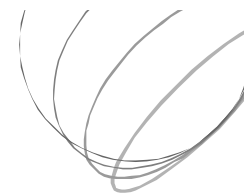
27. This year we reviewed:
- key systems of internal control
 - internal audit
 - arrangements for the prevention and detection of fraud and irregularity, including standards of conduct.
28. Our overall conclusion is that arrangements within PCCS are sound and have operated through 2009/10.

Governance arrangements

29. PCCS was established as a single commissioner and does not have a Board of independent members and consequently had no Audit Committee. This remained the case during 2009/10. However, during 2010/11 PCCS have established a new Audit and Accountability Committee, with independent members. It is understood that this committee will have a remit similar in nature and scope to an Audit committee found within other Non Departmental Public Bodies. This is a welcomed addition to the governance arrangements established within PCCS.

Systems of internal control

30. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In their annual report for 2009/10 Chiene & Tait, the internal auditors, provided their opinion that based on the internal audit work undertaken during the year, they concluded that management has substantial assurance that the



internal controls and governance frameworks are sufficient to ensure the efficient and effective operation of the organisation, and that the strategic and operational risks to which the organisation is exposed are being managed.

31. As part of our audit we reviewed the high level controls in a number of PCCS systems that impact on the financial statements. This audit work covered a number of areas including

- Trade Payables
- Cash and Cash Equivalents
- General ledger
- Payroll
- Budgetary Control
- Capital Accounting / Fixed Assets

Our overall conclusion was that key controls were operating effectively and that PCCS has adequate systems of internal control in place. We did identify a number of areas where controls could be strengthened and agreed an action plan of improvements with management. This will be followed up in 2011 to confirm that improvements have been made.

Statement on Internal Control

32. The Statement on Internal Control provided by PCCS Accountable Officer reflected the main findings from both external and internal audit work. This recorded management's responsibility for maintaining a sound system of internal control and set out PCCS's approach to this.

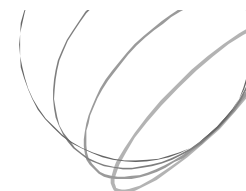
Internal Audit

33. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2009/10 audit we assessed whether we could place reliance on internal audit function within PCCS. We concluded that Chiene & Tait operates in accordance with the Government Internal Audit Manual and therefore placed reliance on their work in number of areas during 2009/10, as we anticipated in our annual audit plan. This included reliance on aspects of internal audit's systems work to avoid duplication of effort.

Prevention and detection of fraud and irregularities

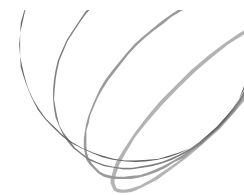
34. PCCS has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption, including policies and codes of conduct for staff and Board members.

35. In terms of good governance, an organisation must have appropriate mechanisms in place to ensure that independently appointed members and senior officers always act in the best interests of PCCS,



free from the influence and control of others. PCCS has established a range of policies and procedures which cover the expected behaviour and conduct for the Commissioner and senior officers whilst discharging their duties on behalf of PCCS. We found appropriate arrangements in place to ensure that any related party disclosures concerning the Commissioner or senior officer within PCCS are identified.

36. PCCS has a well established policy for prevention, detection and investigation which is supported by a fraud response plan. During the course of the year there have been no reportable fraudulent incidents.

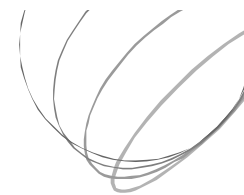


Performance

37. Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. Key features of best value include:
- setting a clear vision of what the organisation wants to achieve, backed up by plans and strategies to secure improvement, with resources aligned to support their delivery;
 - a performance management culture which is embedded throughout the organisation and a performance management framework which is comprehensive and supports the delivery of improved outcomes.
38. In this section we comment on:
- PCCS corporate plan
 - performance against targets
 - performance management arrangements

Vision and strategic direction

39. PCCS has published its corporate plan for 2010-2013 (replacing the 2008 – 2010 plan) which focuses on three corporate objectives:
- Through independent scrutiny, examine the way in which police bodies in Scotland handle complaints.
 - Ensure that police bodies in Scotland follow appropriate and effective procedures for complaints handling that are subject to continuous improvement and modernisation.
 - Demonstrate business effectiveness in accordance with best practice for Scottish public sector bodies, ensuring continuous improvement in all areas of the PCCS work.
40. Under each objective there are a number of actions being taken and key performance targets. Management will have to keep targets under review to ensure achievement of key actions. The delivery of the corporate plan objectives will be particularly challenging given the tight financial constraints over the same period. This is an area we will keep under review during our appointment.
41. The Corporate Plan is supported by an annual business plan for 2010/11. We will continue to monitor developments in these plans during the course of 2010/11.



Performance overview

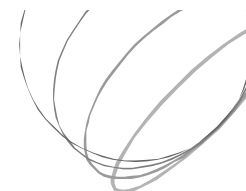
42. Overall, the workload of PCCS increased in 2009/10 when compared to previous years. A total of 396 complaints were received, giving rise to 133 new 'applications accepted for review' during the year. Of these applications, 43 did not proceed to a full 'complaint handling review' (28 in 2008/09), mainly because the complainant had not fully exhausted the complaints process operated by the local police force / institution. In addition, the number of cases finalised also increased from 61 to 69. The greater uptake of the services offered by PCCS is a strong indication that the work of PCCS is becoming more widely known amongst the general public.
43. During the year, PCCS has also conducted and published a number of reports relating to the qualitative aspects of complaint handling procedures used by Scottish police forces. The overall aim of these reports is to improve the standards of complaint handling and promote good practice throughout Scotland.
44. PCCS continues to work proactively with a wide range of stakeholders to ensure appropriate engagement and promotion of its work. The organisation has commissioned research into alternative complaint handling procedures and potential solutions and held events in support of these wider activities.

Performance management

45. PCCS have continued to develop the use of a balanced scorecard as the main performance management tool for monitoring the main activities of the organisation and it is hoped to use this toolkit routinely during 2010/11.
46. The senior management team review different aspects of organisational performance on a monthly basis. This includes financial and non financial information as detailed in the business plan for 2009/10.

Risk management

47. PCCS maintain a risk register, which is aligned to strategic aims and responsibility is assigned to appropriate individuals. It is regularly reviewed by senior staff and reviewed as part of the preparation of the Corporate Plan and the Annual Business Plan.
48. Significant risks include breaches in data security. PCCS have maintained a series of security measures to ensure that information held is carefully managed and controlled. There were no personal data related incidents during the year.



Improving public sector efficiency

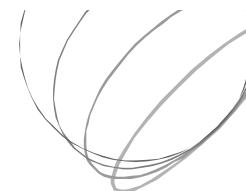
49. The Audit Scotland report *Improving public sector efficiency* was published on 25 February 2010. It provides a position statement on the first year (2008/09) of the Efficient Government Programme (the Programme), which aims to deliver £1.6 billion efficiency savings over the three years to 2010/11. It also gave an update on how the Scottish Government and public bodies have addressed the recommendations made in the 2006 report about the previous efficiency programme.
50. The report found that Scottish public bodies reported more efficiency savings than the Government's two per cent target. But there are serious financial challenges ahead – the biggest since devolution – and making the required savings through efficiency will become increasingly difficult.
51. The report recommended that to deal with reduced future funding and increase savings public bodies need to consider fresh approaches to improving efficiency and productivity. They must take a more fundamental approach to identifying priorities, improving the productivity of public services, and improving collaboration and joint working.
52. The drive to improve efficiency and productivity is not just an exercise for managers and service providers. It requires strong leadership and engagement from the very top of public bodies. Leaders and senior decision-makers within an organisation have a responsibility to check, challenge, monitor and support their organisations in delivering efficiency and productivity improvements. The report's recommendations highlighted areas that public bodies' key decision makers should look at to assess their organisation's development and to challenge existing arrangements (see below).

Extract from Audit Scotland report *Improving public sector efficiency*

In order to improve the delivery of efficiency savings public bodies should:

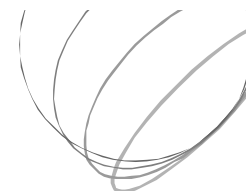
- ensure they have a priority-based approach to budgeting and spending
- continue to improve collaboration and joint working, overcoming traditional service boundaries
- consider using alternative providers of services, if these providers can improve the efficiency, productivity or quality of services
- improve information on costs, activity, productivity and outcomes, including setting baselines to measure performance against
- give greater urgency to developing benchmarking programmes
- maintain the momentum of activities and initiatives to improve purchasing and asset management and extend shared services
- ensure there is a joined-up approach to efficiency savings across the public sector, avoiding duplication
- ensure that plans are in place to deliver savings, clearly setting out what action will be taken, the level of savings to be delivered and how these will be measured
- strengthen the involvement of front-line staff, service providers and users in redesigning public services
- reduce reliance on non-recurring savings to meet financial targets and generally use these as part of a wider and longer term strategy
- report efficiency savings consistently.

53. To support these high-level recommendations, Audit Scotland, the Northern Ireland Audit Office and the Wales Audit Office have drawn on their combined experience to develop a detailed good practice



checklist. The checklist is intended to promote detailed review and reflection and, if necessary, a basis for improvement. We recommend that those responsible for leading efficiency and improvement work should consider assessing themselves against each question, and recording the results.

54. PCCS has had to operate within tight financial resources for 2009/10, including an additional £65,000 grant in aid within the year to cover additional expenses, essential to the operation of the business. In 2010/11 the overall grant in aid allocation has reduced by £130,000 (-3%) on the amount granted in 2009/10. Continuing to provide existing services with potential increases in service demand will be challenging and management face difficult choices about further resource reduction within the existing cost base. This will require innovative and creative solutions to be considered about the way future services are delivered. Achieving financial balance for 2010/11 will remain a challenging target for PCCS to achieve. We will keep developments in this area under review during 2010/11.



Looking Forward

55. PCCS faces a number of challenges in 2010/11, which include:

- **Efficiencies and future funding** - Scottish public bodies reported more efficiency savings than the Government's two per cent target in 2009/10, but there are serious financial challenges ahead – the biggest since devolution – and making the required savings through efficiency will become increasingly difficult. To deal with reduced future funding and increase savings fresh approaches to improving efficiency and productivity must be considered, taking a more fundamental approach to identifying priorities, improving the productivity of public services, and improving collaboration and joint working. PCCS has embraced the concept of working in partnership in many aspects of current service delivery, however has limited flexibility within resource budgets to address rising costs of that service. Therefore the challenge for PCCS is to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives.
- **Restructuring across policing** – In response to financial pressures, Scottish policing is looking into structural changes of the eight police forces. As described in the Corporate Plan 2010-2013, the Commissioner, along with the function of reviewing complaints about the police also has the function of securing efficient and effective police complaint handling. Engaging with forces may be challenge when forces are focusing on their own structural changes or have limited capacity to review and improve their arrangements.
- **Best Value** - The concept of best value is seen as a key driver of modernisation and improvement in public services. Audit Scotland has continued its commitment to extending the best value audit regime across the whole public sector and significant development work has taken place over the last year including the finalisation of its best value toolkits. This has been matched by the Scottish Government's commitment to refreshing its Best Value Guidance for Public Bodies. PCCS should continue to respond to this important initiative as it develops.