
Strathclyde Joint Police Board

Annual Report to Members and the
Controller of Audit

30 September 2011

For the financial year
ended 31 March 2011

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Executive Commentary

Introduction - Section 1

Our overall responsibility as external auditor of Strathclyde Police Joint Board (“the Board”) is to undertake our audit in accordance with the principles contained in the Audit Scotland Code of Audit Practice (“the Code”), revised and published in March 2007. We have a dual reporting responsibility for the audit: to the Board Members of Strathclyde Police Joint Board and to the Controller of Audit.

Financial Statements and Audit Opinion - Section 2

The financial statements of the Board for the year ended 31 March 2011 have been prepared to comply with accounting requirements contained in the Code of Practice on Local Authority Accounting in the United Kingdom 2010: A Statement of Recommended Practice (“SORP”).

We are pleased to report that our opinion on the financial statements for the year ended 31 March 2011 is **unqualified**.

The Board has adopted the going concern basis for the preparation of its financial statements because the pension liability does not impact on its underlying ability to meet its current and ongoing commitments. Formal representations have been obtained from management in this regard and we agree with the basis of the preparation of the accounts.

The draft financial statements and supporting schedules were made available to us at the start of our audit allowing us to progress and complete the audit fieldwork within the agreed timescales. The quality of the draft financial statements and working papers produced by management were of a good standard.

As a result of our work, we proposed a number of audit adjustments, predominantly disclosure in nature and largely as a result of 2010/11 being the first year in which the Board were required to report under the new IFRS based Code of Accounting Practice. All adjustments have been accepted by management and were processed within the 2010/11 financial statements. Therefore, there are no unadjusted differences to report.

2010/11 Financial Performance - Section 3

Revenue Budget

For the year ended 31 March 2011, after adjusting the in-year deficit to reflect the necessary statutory and non statutory adjustments, the General Fund shows a 2010/11 deficit for the year of £16.9 million. However, this was not an unplanned overspend and was principally attributable to the fact that an in-year decision was reached that the net cost of the new Police pension arrangements of £14.2 million was required to be met from the Comprehensive Income and Expenditure Statement.

Additionally, management made an in-year contribution to revenue of £5m, in line with the Board’s reserves strategy. Consequently, when excluding the impact of the accounting treatment of these two issues the Board’s underlying 2010/11 revenue position outperformed that budgeted by £2.3m.

The following significant factors also contributed to the Board’s 2010/11 revenue performance:

- An additional £12.2 million of new provisions were created during the year. £10.0 million was in respect of costs associated with the Voluntary Redundancy/Retirement scheme, with the remainder attributable to Employers’, Vehicle and Public Liability Claims (see Section 2); and
- These overspends were off-set by £4.4 million of efficiency savings in excess of those budgeted, principally generated through the staff recruitment freeze implemented during 2010/11.

After including the 2010/11 revenue result the cumulative general fund balance, available for carry forward totalled £30.3 million. This is within the legislative cumulative carry forward limit of 8%.

Capital Budget

The main focus of capital work during 2010/11 was the construction of the Renfrew Sub Divisional Headquarters, Saltcoats modular cell units and the additional cells within Bowmore Police Station.

Budgeted capital expenditure for 2010/11, within the approved programme for 2010-2015, totalled £8.4 million. Actual expenditure amounted to £7.9 million, with the £0.4 million under spend primarily due to slight slippage in the completion of some Building Works and IT projects.

Looking Forward - 2011/12 - Section 4

2011/12

The year ahead is expected to bring further challenges to all public sector bodies. The sector must respond to a deep and protracted funding squeeze as public finances are rebalanced. In particular, the Scottish budget has been reduced by £1.3 billion in 2011/12.

The Board has highlighted several cost pressures in its 2011/12 financial plan that may impact on its ability to achieve its agreed budget. However, increases in both fuel costs (£0.9m) and Utilities costs (£0.4m) have been identified as areas where the most significant pressure will arise.

2012/13 and Beyond

The future of the Board, in its current form as a Regional Police Board, appears uncertain following the Scottish Justice Secretary's announcement, on 8 September 2011, that policing in Scotland would be taken forward within a single national force structure. Despite this, the Board is continuing to engage in longer term planning initiatives. Given that the timescales for the implementation of these policing reforms is still to be established, this is undoubtedly a sensible strategy.

The 2011/12 funding reduction communicated in the Scottish Government Budget was not as severe as management had anticipated. However, given the uncertainty that is inherent with a one-year settlement agreement, management have taken the measures of assuming further budget cuts in years to come and have made plans accordingly, continuing the current efficiency programme which has a focus on sustainable savings.

The Board has formulated these assumptions in a Medium Term Revenue Strategy, which runs from 2011/12 through until 2014-15. Scenarios modelled have estimated the 2014-15 budget shortfall to be as much as £70 million. In order to address the projected shortfalls a number of mitigating actions have been considered and indeed have already been initiated e.g. the launch of an early retirement/ voluntary redundancy scheme for police support staff and the reduction in ratio of supervisory ranks.

While the Board is taking positive, decisive and timely action, maintaining the current levels of service delivery will be extremely challenging should the predicted budgetary constraints become reality.

Governance and Control - Section 5

In July 2011, Audit Scotland, in partnership with Her Majesty's Inspectorate of Constabulary for Scotland (HMICS), published findings as a result of their 'Best Value Audit and Inspection' of Strathclyde Police and Strathclyde Police Joint Board. The report noted that overall, Strathclyde Police performs well and communities receive a good policing service.

However the report also stated that the force, and the Board and its support function, should establish more effective joint working to ensure they are delivering best value.

As part of the Force's ongoing efficiency programme, a corporate restructuring exercise was initiated during 2010/11. The restructuring exercise has brought functions such as Risk Management, Legal Services and

Health and Safety together under a “Corporate Services” umbrella – consistent with other public sector organisations. Management budgets estimate that this restructuring will generate recurring savings of £0.5m.

The Code of Audit Practice requires us to review and report on the Board’s Statement on Internal Control. The Board has used the correct format for its Statement and has outlined the processes it had employed to identify and evaluate risks. In addition, key elements of the Board’s control framework have been highlighted. Based on our normal audit procedures, **we do not disagree** with the disclosures contained in the Statement.

Section 1: Introduction

Purpose of this report

The Annual Audit Report which follows is designed to set out the scope, nature and extent of our audit, and to summarise our opinion and conclusions on issues arising. Specifically this will direct your attention to matters of significance from our 2010/11 external audit and to confirm what action is planned by management to address the more significant matters identified for improvement.

Scope, nature and extent of our audit

Our overall responsibility as external auditor of Strathclyde Joint Police Board (“the Board”) 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. It also sets out the need to recognise that the overall audit process is a co-ordinated approach involving the “appointed auditor” and the Auditor General for Scotland. Our audit has been planned and conducted to take account of these wider perspectives where applicable.

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. This Annual Audit Report to Members, together with previous reports to the Audit Governance and Risk Committee throughout the year, as summarised at Appendix 2, discharges the requirements of ISA 260.

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

PricewaterhouseCoopers LLP
Appointed Auditor
Glasgow
30 September 2011

Section 2: Financial Statements and Audit Opinion

Basis of Preparation

The financial statements were prepared in accordance with the accounting requirements contained in the Code of Practice on Local Authority Accounting in the United Kingdom 2010: A Statement of Recommended Practice (“SORP”).

Government bodies, including Joint Boards, were required to adopt International Financial Reporting Standards (IFRS) from 2010/11 onwards. As a result the Board has restated its 2009/10 financial statements on an IFRS basis to provide prior year comparatives. Producing IFRS accounts for the first time was a substantial change for the Board, requiring significant input by management. Overall, this transition was well planned, and our audit adjustments in respect of IFRS were disclosure related.

Approval

The Board’s draft financial statements were signed as authorised for issue by the Treasurer to the Board on 30 June 2011 and submitted to the Controller of Audit by the deadline of 30 June 2011.

Audit Process

The draft financial statements and supporting schedules were made available to us at the start of our audit allowing us to progress and complete the audit fieldwork within the agreed timescales. The quality of the draft financial statements and working papers produced by management were of a good standard.

Unadjusted Misstatements

Under ISA 260 - “Communication of audit matters to those charged with governance”, we are required to report to members of the Board 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.

During the course of our audit we identified a number of proposed adjustments, principally disclosure in nature and largely as a result of 2010/11 being the first year in which the Board were required to report under the new IFRS based Code of Accounting Practice. Management have accepted all our proposed adjustments and these have been reflected in the final financial statements submitted. There were no unadjusted differences following our external audit.

Audit Opinion

Our audit opinion concerns the presentation of Strathclyde Joint Police Board’s financial position as at 31 March 2011 and its income and expenditure and cashflows for the year then ended.

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 2010 SORP, of the financial position of the Board as at 31 March 2011 and of its income and expenditure and cashflows for the year then ended; and
- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

We are pleased to report that our opinion on the true and fair view on the financial statements and on the regularity of income and expenditure is **unqualified**.

We also provide a view as to whether those parts of the Remuneration Report subject to audit have been properly prepared – this only includes tables 1 to 5, as set out within the Remuneration Report. Our opinion on the Remuneration Report is **unqualified**.

Going Concern

The Board's balance sheet discloses an excess of liabilities over assets of £4,085 million (£4,632 million in 2009/10). This liability position is wholly attributable to the accrual of pension liabilities. An excess of liabilities over assets is one of the indicators that may lead to concerns over 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 Board is entitled to prepare its financial statements on a going concern basis.

The pension liability on the balance sheet has decreased by £561 million in 2010/11. This is principally due to the fact that the actuarial assumptions used to account for the pension position were more favourable at 31 March 2011 than they were at 31 March 2010 (see section 3 for further details).

The Board has adopted the going concern basis for the preparation of its financial statements because the pension liability does not impact on its underlying ability to meet its current and ongoing commitments. Formal representations have been obtained from management in this regard and we agree with the basis of the preparation of the accounts.

Consultations are presently ongoing at a UK and Scottish Government level with a view to addressing the public sector pension deficit. The Board's position is consistent with other joint boards that operate unfunded pension schemes and we do not disagree with management's decision to prepare the financial statements on a going concern basis.

Accounting Issues

During the course of our final audit work we discussed a number of accounting issues with management, with the more significant matters outlined below.

Pension Scheme Increases

On 22 June 2010 the government announced changes to the measure of price inflation for the purposes of determining the statutory minimum rates of increases to pensions in payment and revaluation in deferment. In future, statutory pension increases will be based on CPI (consumer price index) instead of RPI (retail price index). This was confirmed in December 2010 when the relevant statutory instrument was published.

This reflects a change in pension scheme rules and has resulted in a gain of £557.8 million being recognised as a negative past service cost within the Comprehensive Income and Expenditure Statement, in accordance with UITF Abstract 48. However, this does not reflect a cash gain and merely reflects a reduction in the pension scheme liability, as held on the balance sheet. As a result, the impact of this gain is reversed through the Movement in Reserves Statement and does not impact on the overall financial outturn for 2010/11.

Provisions

Included within the financial statements are provisions totalling £14.9 million. These are principally in relation to insurance claims and restructuring of certain aspects of the Board's support service functions. As part of the Board's restructuring activity, a £10.0m provision has been created to account for the Board's voluntary redundancy programme. Approximately 120 posts form part of this programme with the majority of these expected to be vacated by the beginning of 2012. The most significant element of the redundancy provision can be attributed to enhanced pension payments to the employees vacating their posts.

This is an area whereby management are required to exercise a considerable degree of judgement; however, we obtained comfort over the legitimacy and accounting treatment of the amounts provided.

However, one exception was noted where the short-term employee benefits provision balance, per the draft financial statements, was found to be understated by £0.6 million. This occurred as a result of a formula error within the supporting working paper. Management agreed to adjust for this error, however, this had no impact upon the general fund as a result of the short-term employee benefit accrual being a new IFRS requirement. As such, it is accounted for through the STACA – a statutory mitigation reserve introduced by Government to protect Board's and Local Authorities from being financially prejudiced through the adoption of IFRS.

Revaluation of the Police Training and Recruitment Centre

The Board has one PFI arrangement, the Training and Recruitment Centre at Jackton, which was brought onto the balance sheet in 2009/10, in accordance with the SORP's early adoption of IFRS in respect of PFI/PPP arrangements.

Accounting requirements state that once the PFI asset has been brought 'on balance sheet' it must be accounted for in much the same way as any owned assets in respect of depreciation, revaluation and impairment. As the asset was previously held 'off balance sheet', we noted during our 2009/10 audit that the Jackton facility had not been re-valued since it came into operation during 2001, this remains the case.

This is over 10 years ago and property valuations have been subject to considerable fluctuation over this period, increasing the likelihood of a material change in the facility's value. The Board's accounting policies dictate that the training centre should be re-valued at least every five years in the same way that all land and buildings are valued by the Force Valuer. While there are plans to revalue the facility in April 2012, we would recommend that the Board ensure the Training and Recruitment Centre is re-valued during 2011/12, and included within the 5 year rolling revaluation programme going forward.

Recommendation 1

Section 3: 2010/11 Financial Performance

For the year ended 31 March 2011, after adjusting the in-year deficit to reflect the necessary statutory and non statutory adjustments, the General Fund shows a 2010/11 deficit for the year of £16.9 million, as reflected within the table below:

	£m	£m
Gross Expenditure	682.0	
Gross Income	774.3	
Net Cost of Services		(92.3)
Net Operating Surplus/(Expenditure)		(238.9)
(including impact on loss of disposal, interest receivable and payable, pension interest costs, past service pension gain and expected return on pension assets)		
Funded by:		
Police Grant	225.5	
Precepts from Local Authorities	216.6	
		<u>442.1</u>
Income and Expenditure surplus for the year		295.5
Amount required to be debited to the General Fund Balance		(312.4)
Increase/(Decrease) in the General Fund balance		(16.9)

However, this was not an unplanned overspend and was principally attributable to the fact that an in-year decision was reached that the net cost of the new Police pension arrangements of £14.2 million was required to be met from the Comprehensive Income and Expenditure Statement.

Additionally, management made an in-year contribution to revenue of £5m, in line with the Board's reserves strategy. Consequently, when excluding the impact of the accounting treatment of these two issues the Board's underlying 2010/11 revenue position outperformed that budgeted by £2.3m.

The following significant factors also contributed to the Board's 2010/11 revenue performance:

- An additional £12.2 million of new provisions were created during the year. £10.0 million was in respect of costs associated with the Voluntary Redundancy/Retirement scheme, with the remainder attributable to Employers', Vehicle and Public Liability Claims (see Section 2); and
- These overspends were off-set by £4.4 million of efficiency savings in excess of those budgeted, principally generated through the staff recruitment freeze implemented during 2010/11.

Capital Expenditure

The main focus of capital work during 2010/11 was the construction of the Renfrew Sub Divisional Headquarters, Saltcoats modular cell units and the additional cells within Bowmore Police Station.

Budgeted capital expenditure for 2010/11, within the approved programme for 2010-2015, totalled £8.4 million. Actual expenditure amounted to £7.9 million, with the £0.4 million under spend primarily due to slight slippage in the completion of some Building Works and IT projects.

Severance costs

The second phase of the Voluntary Redundancy Scheme was opened up to staff in September 2010. 78 Members of Police Staff left the organisation during 2010/11 as a result of accepting the redundancy terms offered. Approximately £3.6 million of severance costs were charged to the revenue budget during 2010/11, with a further 60 Members of Police Staff having their redundancy applications approved, for release during 2011/12. This scheme did not apply to police officers.

Prior to undertaking the restructuring exercise that gave rise to the Voluntary Redundancy Scheme, management conducted an Impact Assessment detailing the positive and negative impact of the change and also any mitigation. In addition, where appropriate, Training Needs Analysis was completed for new posts. This formed part of union consultations and is undertaken prior to being presented to the Board for approval. This structured approach should assist in mitigating the impact of losses in vital skill sets and any consequent impact on quality of service delivery.

Performance against Key Financial Targets

The Police and Fire Services (Finance) (Scotland) Act 2001 restricted cumulative carry forward fund balances to no more than 5% of the contributions made by the constituent authorities for that year. However, Scottish Police and Fire services were successful in lobbying the Government for an increase to this carry forward limit for the purposes of 2010/11, with 8% being the revised limit. After including the 2010/11 revenue position, the cumulative general fund balance, available for carry forward, totalled £30.3 m. This is within the revised the legislative cumulative carry forward limit, of 8%, as stipulated by the Police Grant (Carry-forward Percentages) (Scotland) Order 2011.

Section 4: Financial outlook for 2011/12

The year ahead is expected to bring further challenges to all public sector bodies. The sector must respond to a deep and protracted funding squeeze as public finances are rebalanced. In particular, the Scottish budget has been reduced by £1.3 billion in 2011/12, consequently, the achievement of financial balance will continue to be a significant challenge for management.

The Board has agreed the following 'summary revenue budget' for 2011/12:

Summary Revenue Budget 2011/12	£m	£m
Net Expenditure	(460.0)	
Debt Charges	(5.2)	
Scottish Government Funded Officers	<u>(14.2)</u>	
Budget Requirement		(479.4)
Available Funding		
Specific Funding	221.6	
Specific Grant – Funded Officers	14.2	
Precept	<u>211.8</u>	
Total Funding		447.6
Efficiency Budget Savings Target		(31.8)
<u>Financed by:</u>		
Short term Budget initiatives		
2011/12 Pay Freeze	4.3	
Application of Revenue Reserves	3.4	
Medium Term Budget Initiatives		
Ongoing Reforms and Efficiencies	20.9	
Other Initiatives	<u>3.2</u>	31.8

Achieving Budget

The Board has highlighted several cost pressures in its 2011/12 financial plan that may impact on its ability to achieve its agreed budget. However, increases in both fuel costs (£0.9m) and Utilities costs (£0.4m) have been identified as areas where the most significant pressure will arise.

Capital Plan

The Board's capital grant for 2011/12 is £8.394m, this equates to a 16.1% reduction on 2010/11. While this shortfall will be partially subsidised by an application from earmarked reserves, the revenue budget is also under increasing pressure. Ongoing reductions in capital expenditure will inherently give rise to greater repairs and maintenance expenditure that will place increasing pressure on revenue budgets.

The major capital projects within the 2011/2012 plan include the completion of the Renfrew Sub Divisional Headquarters (£2.5 million) and a new Digital Media Investigation Unit (£1.1 million).

The Board is also at an advanced consultation stage with regard to the construction of a new Force Headquarters, replacing the existing premise at Pitt Street, within Glasgow's City Centre. The current Pitt Street Headquarters are in need of modernisation and are a recurring and increasing pressure on the Board's revenue budget through the amount of repairs and maintenance expenditure incurred in order to ensure the building remains fully operational.

However, the cost of constructing a new Headquarters, is estimated at around £35-£40 million. In the present climate of ongoing budgetary constraints and reduced settlements, as well as the ongoing consultation on Police Reform and the establishment of a single national force, it is imperative that any decision reached on the construction of a new Headquarters is done so with a full and complete consultation process, involving all the Board's key stakeholders.

Recommendation 2

2012/13 and Beyond

The future of the Board, in its current form as a Regional Police Board, appears uncertain following the Scottish Justice Secretary's announcement, on 8 September 2011, that policing in Scotland would be taken forward within a single national force structure. Despite this, the Board is continuing to engage in longer term planning initiatives. Given that the timescales for the implementation of these policing reforms is still to be established, this is undoubtedly a sensible strategy.

The 2011/12 funding reduction communicated in the Scottish Government Budget was not as severe as management had anticipated. However, given the uncertainty that is inherent with a one-year settlement agreement, management have taken the measures of assuming further budget cuts in years to come and have made plans accordingly, continuing the current efficiency programme.

The Board has formulated these assumptions in a Medium Term Revenue Strategy, which runs from 2011/12 through until 2014-15. Scenarios modelled have estimated the 2014-15 budget shortfall to be as much as £70 million. In order to address the projected shortfalls a number of mitigating actions have been considered and indeed have already been initiated e.g. the launch of an early retirement/ voluntary redundancy scheme for police support staff and the reduction in ratio of supervisory ranks.

While the Board is taking positive, decisive and timely action, maintaining the current levels of service delivery will be extremely challenging should the predicted budgetary constraints become reality.

Section 5: Governance and Internal Control Arrangements

Overall Governance Arrangements

Best Value Audit and Inspection

In July 2011, Audit Scotland, in partnership with Her Majesty's Inspectorate of Constabulary for Scotland (HMICS), published findings as a result of their 'Best Value Audit and Inspection' of Strathclyde Police and Strathclyde Police Authority'.

The report scrutinised the effectiveness of Strathclyde Police Authority's current arrangements for holding Strathclyde Police ("the Force") to account and noted that improvements were required in order to ensure the Authority acted as an effective oversight body. The findings are consistent with our experience of the Board's governance arrangements. Further actions by the Authority will be necessary during 2011/12 to implement the agreed action plan, prior to a formal follow up by Audit Scotland in 12 months time.

Recommendation 3

Corporate Services Restructuring

As part of the Board's ongoing efficiency programme, a corporate restructuring exercise was initiated during 2010/11. The restructuring exercise has brought functions such as Risk Management, Legal Services and Health and Safety together under a "Corporate Services" umbrella – consistent with other public sector organisations. Management budgets estimate that this restructuring will generate recurring savings of £0.5m.

As part of this restructuring it is proposed that internal audit also forms part of Corporate Services, facilitating closer alignment with risk management.

Statement on Internal Control

The Code of Audit Practice requires us to review and report on the Board's Statement on Internal Control. The Board 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 Board's control framework have been highlighted, such as the budgetary challenge and change management processes, as well as the work of internal audit and risk management. Based on our normal audit procedures, we do not disagree with the disclosures contained in the Statement.

Systems of Internal Control

Over the term of our external audit appointment, we review those key financial processes and controls which could have a direct impact on the fair statement of balances within the financial statements. Our audit testing included individual walkthroughs of the specific financial processes in place. In addition, on a rotational basis every three years, we undertake more detailed testing of certain key financial controls to ensure that these controls continue to operate as expected. For 2010/11 this detailed work included:

- Sales and Receivables;
- Purchasing and Payables;
- Treasury and Cash Management;
- Payroll; and
- Financial Accounting for Property, Plant and Equipment.

In addition to the above, we reviewed the Board's IT general control environment, as it relates to the core financial systems.

The results of our work on systems of internal control were communicated to the Audit Governance and Risk Committee in our Interim Management Letter in March 2011. The report contained 3 recommendations to improve controls, none of which were graded as higher risk or business critical in nature.

Management has completed an action plan detailing those individuals responsible for implementing our recommendations and the timetable for completion. The implementation of these actions will be considered through follow-up procedures undertaken as part of the 2011/12 audit process.

Follow up of outstanding recommendations

In addition to our work on internal controls we followed up the Board's progress in implementing external audit recommendations made in the prior year. We identified 17 recommendations of which 8 were fully implemented and 3 were partially implemented. Our Follow up of Prior Year Recommendations Report was contained within our Interim Management Letter and considered at the Audit Governance and Risk Committee meeting on 19 April 2011.

National Fraud Initiative

The National Fraud Initiative (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.

The 2010/11 NFI project is a two year programme. The Board has run both payroll and creditors data sets and in February 2011 were notified of 64 recommended matches requiring further investigation. These investigations have been completed with no fraudulent activity being uncovered.

National Performance Audits

Improving Public Sector Purchasing

At the request of Audit Scotland, we were required to perform targeted follow up work on one of their National Performance Reports: *Improving public sector purchasing* (published July 2009) during the year.

As per our review we can confirm that ongoing progress is being made by the Board to further refine and strengthen its procurement arrangements.

Results two of the most recent Performance Capability Assessments (PCA) have shown an improvement from 53% in 2009/10 to 62% in 2010/11. This was predominantly achieved by marked improvements in respect of performance against the 'corporate and social responsibilities' and 'purchasing practices and processes' criteria. Management have demonstrated a commitment to improving their purchasing processes and further progress will be measured by the upcoming 2011 PCA.

Appendices

Appendix 1: Action Plan

To assist management in assessing each audit finding and recommendation, we have assessed the risk to the organisation of each of the recommendations which have not yet been fully implemented and have categorised each recommendation according to the criteria shown below:

High	Significant control weakness requiring immediate attention by management
Moderate	Control weakness identified which needs to be rectified but where there is no material impact on the achievement of the control objectives
Low	Minor control weakness identified

The following recommendations have been raised within the body of this report:

Ref	Recommendation and Risk Rating	Management Response, Responsible Officer and Implementation Date
1	<p>Action 1</p> <p>We noted during our 2009/10 audit that the Jackton facility had not been re-valued since it came into operation during 2001, this remains the case.</p> <p>This is over 10 years ago and property valuations have been subject to considerable fluctuation over this period, increasing the likelihood of a material change in the facility's value. We recommend that the Board ensure the Training and Recruitment Centre is re-valued during 2011/12 and included within the 5 year rolling revaluation programme going forward.</p> <p>Risk Rating – Moderate</p>	<p>Management Response:</p> <p>The Property Revaluation Programme for 2011/12 will be amended to included the FTRC, Jackton</p> <p>Responsible Officer:</p> <p>Property Services Manager</p> <p>Implementation Date:</p> <p>March 2012</p>
2	<p>Action 2</p> <p>The Board is at an advanced consultation stage with regard to the construction of a new Force Headquarters. The current Pitt Street Headquarters are in need of modernisation and are a recurring and increasing pressure on the Board's revenue budget through the amount of repairs and maintenance expenditure incurred in order to ensure the building remains fully operational.</p>	<p>Management Response:</p> <p>Consultation with stakeholders is continuing and will conclude with the presentation of a Full Business Case to a special meeting of the Board scheduled for the end of January 2012.</p> <p>Responsible Officer:</p> <p>Deputy Chief Constable</p>

Ref	Recommendation and Risk Rating	Management Response, Responsible Officer and Implementation Date
	<p>However, the cost of constructing a new Headquarters, is estimated at around £35-40 million. In the present climate of ongoing budgetary constraints and reduced settlements, as well as the current consultation on Police Reform, it is imperative that any decision reached on the construction of a new Headquarters is done so with a full and complete consultation process, involving all the Board's key stakeholders.</p> <p>Risk Rating - Moderate</p>	<p>Implementation Date: January 2012</p>
3	<p>Action 3</p> <p>Authority management must ensure the action taken to address the governance weaknesses highlighted in Audit Scotland and HMICS report: 'Best Value Audit and Inspection' of Strathclyde Police and Strathclyde Police Authority' is both commensurate and measurable.</p> <p>Risk Rating - High</p>	<p>Management Response:</p> <p>The Best Value Audit and Inspection improvement recommendations are currently being addressed in tandem with the ongoing complementary improvement work arising out of the Police Authority Review process. It is intended that all of the joint and individual organisational improvements will be executed by summer 2012.</p> <p>Responsible Officer: Chief Executive</p> <p>Implementation Date: July 2012</p>

Appendix 2: Communication to Management

International Standards on Auditing (“ISA”) (UK&I) 260 – Reporting to those charged with Governance, requires that the External Auditor communicates certain matters to those charged with governance. Those charged with Governance is taken to be the Members of the Audit Risk and Governance Committee with responsibility discharged through the regular meetings of the Committee during the year. Summarised below are the requirements set out within ISA 260 together with reference to the relevant communication with you during 2010/11 or comments as appropriate.

Communication Required under ISA 260 Reference/Comment

Engagement Letters	Signed Engagements Letter with Audit Scotland at the start of our 5 year appointment.
Independence	2010/11 External Audit Plan, as taken to the 15 February Audit Governance and Risk Committee, confirmed no member of audit team has any direct interest, financial or otherwise, in the Board.
Audit Approach and Scope	2010/11 External Audit Plan (15 February Audit Governance and Risk Committee). During the year there were no changes to our plan or risk assessment that we are required to communicate with you.
Materiality	2010/11 External Audit Plan: Audit Governance and Risk Committee, 15 February 2011.
Form and Timing of Communications	2010/11 External Audit Plan.
Accounting Policies/Estimates/Disclosures	Section 2 of our Annual Report to Board Members and the Controller of Audit.
Correspondence with management on significant matters	Discussed and resolved matters arising with management throughout audit process. No unadjusted differences to report.
Letter of Representation	Signed by the Treasurer on 8 September 2011.
Financial Statements Audit Opinion	Signed by the Engagement Leader on 8 September 2011.
Other matters significant to the oversight of financial reporting process	None identified.
Material Uncertainties relating to Going Concern	See going concern comments in section 2.
Related Parties	Other than those transactions disclosed in the financial statements we have not identified any further transactions requiring disclosure.
Fraud	Discussed fraud arrangements with the Chair of the Audit Governance and Risk Committee on 15 February 2011 and management throughout the audit process. No significant frauds identified in the period.
Material Weaknesses in Internal Controls	Internal Controls findings reported separately in our Interim Management Letter, dated March 2011, and presented to the Audit Governance and Risk Committee on 19 April 2011.
Improving Public Sector Purchasing: Follow-up	Reported to Audit Scotland – September 2011.

This report has been prepared for and only for Strathclyde Joint Police Board in accordance with the terms of our engagement letter dated and for no other purpose. We do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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