

# Lothian and Borders Police Board

## Annual report on the 2011/12 audit



Prepared for the Members of Lothian and Borders Police Board and the Controller of Audit  
October 2012

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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# Key messages

## 2011/12 audit findings

We have audited the 2011/12 financial statements and looked at aspects of performance management and governance, including the key financial risks faced by Lothian and Borders Police Board (the board). This report sets out our main findings, summarising key outcomes from the 2011/12 audit and the outlook for the period ahead.

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

- we have given an unqualified opinion on the financial statements
- the financial statements preparation procedures and working papers were generally of a high standard
- many aspects of a sound corporate governance framework are in place
- there were no significant issues that required to be brought to the attention of those charged with governance.

The board reported a deficit on the provision of services of £81.993 million for the year and has a general fund balance of £7.4 million. The excess of liabilities over assets has increased sharply to £1,830 million, primarily as a consequence of increased accrued pension liabilities.

Audit Scotland and Her Majesty's Inspectorate of Constabulary for Scotland undertook a joint Best Value and inspection audit of the board during 2011 with broadly positive findings published in December 2011.

## Outlook

Financial year 2012/13 will be the board's final year of operation prior to the creation of the Police Service of Scotland. The board faces the considerable challenge of continuing to provide an effective service and meet performance targets during a period of significant upheaval and uncertainty. There is also the challenge of ensuring a seamless transition to the successor body with no disruption to service.

# Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of Lothian and Borders Police Board (the board). The nature and scope of the audit were outlined in the Audit Plan presented to the Audit and Scrutiny Committee on 18 June 2012 and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising. The report is divided into sections which reflect the public sector audit model.
2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of the board.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the board understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to members and the Controller of Audit and should form a key part of discussions with the Audit and Scrutiny Committee, either prior to, or as soon as possible after, the formal completion of the audit of the financial statements. Reports should be available to the Scottish Parliament, other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website after consideration by the board. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration Committee of the Scottish Parliament.
6. The management of the board is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The auditor is responsible for auditing and expressing an opinion on the financial statements. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

# Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
  - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
  - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
9. Auditors review and report on, as appropriate, other information published with the financial statements, including foreword by treasurer, annual governance statement and the remuneration report. Where required, auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit of the financial statements.

## Audit opinion

10. We have given an unqualified opinion that the financial statements of Lothian and Borders Police Board for 2011/12 give a true and fair view of the state of the affairs of the board as at 31 March 2012 and of the income and expenditure for the year then ended.

## Legality

11. Through our planned audit work we consider the legality of the board's financial transactions. In addition, the Treasurer confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the board's management team, the financial transactions of the board were in accordance with relevant legislation and regulations. There are no additional legality issues arising from our audit which require to be brought to members' attention.

## Going concern

12. The Board's balance sheet as at 31 March 2012 discloses an excess of liabilities over assets of £1,830 million (2010/11: £1,543 million). The excess is principally due to the accrual of pension liabilities in accordance with International Accounting Standard 19 (Employee Benefits). The board has adopted a 'going concern' basis for the preparation of the financial statements as future liabilities will be met, as they fall due, by government grant and contributions from constituent authorities under the Combined Police Area Amalgamation Scheme 1995. The Treasurer has given us formal assurance, in the letter of representation, as to the board's ability to continue as a going concern.
13. The Police and Fire Reform (Scotland) Act received royal assent on 7 August 2012. Although the board will cease to operate upon the creation of the Police Force for Scotland, we

consider it appropriate to adopt the 'going concern' basis for the preparation of financial statements as the provision of service will continue after the creation of the new force.

## Annual governance statement and remuneration report

14. We were satisfied with disclosures made in the annual governance statement and the adequacy of the process put in place by the board to obtain assurances on the systems of internal control.
15. We are satisfied that the remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011.
16. The disclosures within the 2011/12 financial statements include all eligible remuneration for the relevant force officers and elected members.

## Accounting issues

17. Police Joint Boards in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the 2011 Code). We are satisfied that the board prepared the 2011/12 financial statements in accordance with the 2011 Code with the exception of the inventories valuation methodology. This is a departure from the 2011 Code, and is disclosed within the accounting policies section of the financial statements. We are satisfied, however, that this practice does not have a material impact on the value in the financial statements. We have received additional assurance over the accuracy of inventory valuation from the Treasurer in the letter of representation.
18. The board has adjusted the financial statements to reflect audit findings. As is normal practice, relevant matters arising and unadjusted errors have been reported to the Audit and Scrutiny Committee via our letter issued in line with International Standard on Auditing 260 (ISA 260) - Communication of audit matters with those charged with governance. Details of accounting and financial reporting issues which arose during the course of our audit are summarised below.

## Accounts submission

19. The draft accounts were submitted to the Controller of Audit on the 25th June in advance of the 30th June deadline. The working papers were of a reasonable standard and staff provided good support to the audit team enabling all outstanding points to be cleared and in time for the accounts to be certified by the deadline of 28 September 2012.
20. Our ISA 260 letter was presented to the Audit and Scrutiny Committee on 24 September 2012. The financial statements were signed by the Treasurer on 28 September 2012 following board approval.

## Presentational and monetary adjustments to the unaudited accounts

21. A small number of presentational changes were required to the annual report and accounts as a result of our review of the disclosures required by the Code. We also identified the following monetary changes:
- Gross expenditure decreased by £0.161 million; Financing and Investment Expenditure increased by £0.25 million; actuarial losses decreased by £1.79 million and net liabilities decreased by £1.7 million as a result of revised pensions calculations supplied by the actuary.
  - Current assets were re-classified as third party assets resulting in a decrease in Cash & Cash Equivalents of £0.022 million and a corresponding decrease in short-term creditors of £0.022 million.
22. A small number of non-material errors were identified during the audit but not corrected. These errors were summarised in Appendix B of our ISA 260 letter.

## Other accounting issues

23. The opening balances in the ledger had not been correctly brought forward for several sub-categories of non-current assets. These included Intangible Assets, Other Land & Buildings and Vehicles, Property and Equipment. Although the final net book values are correctly stated in the accounts, the processes involved in rolling forward balances in the ledger should be reviewed to ensure that the correct opening balances are reflected. Correcting journals should be processed well in advance of the board's anticipated final balance sheet date of 31 March 2013.

**Refer Action Plan no. 1**

24. As in 2010/11, the valuation of inventories as stated in the accounting policies did not comply with the Code. Inventories are valued in the financial statements at the latest invoice price but the Code requires lower of cost and net realisable value. Audit testing determined that the risk was low of a material error being present as a result of the differing accounting treatment and no adjustment was therefore proposed to the financial statements. The Board should consider following the valuation methodology set out in the Code prior to the Board's anticipated final Balance Sheet date of 31 March 2013.

**Refer Action Plan no. 2**

25. While the working papers submitted with the draft accounts were generally of a good standard there were some areas we identified for improvement. Notes to the accounts should be supported by fully cross-referenced working papers and we would expect the working paper package to include a completed disclosure checklist. We will continue to liaise with finance staff on these areas during the 2012/13 audit.

**Refer Action Plan no. 3**

## Post balance sheet events

26. The board has recognised two events that occurred after the balance sheet date.



27. The board has drawn attention to the volatility of pension fund asset values which are likely to fluctuate in the period between the balance sheet date and the date on which the accounts are authorised. No adjustment to the accounts is required as a consequence of normal market fluctuations.
28. The Police and Fire Reform (Scotland) Act 2012 received Royal Assent on 7th August 2012. It is anticipated that responsibility for police services will transfer from local government to a new central government body, the Police Service of Scotland, on 1 April 2013. This event was expected and has not impacted on the assumption of a going concern basis for the preparation of accounts.

## Pension costs

29. In accordance with pensions accounting standard IAS19 'Employee Benefits', the board has recognised its share of the net liabilities for the pension funds in the balance sheet. The valuation at 31 March 2012 provided by the schemes' actuaries increased the board's share of the net liabilities by £288 million at 31 March 2012. The most significant element of the large increase in the liability is actuarial losses on pensions' assets and liabilities of £209 million.

## Whole of Government Accounts

30. The whole of government accounts (WGA) is the set of consolidated financial statements for all branches of government in the UK. The aims of WGA are to provide improved data for fiscal planning, increase transparency and improve accountability to Parliament. The board was required to submit a consolidation pack to the Scottish Government by 29th July 2012 and appointed auditors by 12 August 2012. The audit deadline was 5 October 2012. The WGA return was not received by Audit Scotland until after the 12 August deadline, however the audited pack was submitted by 5 October as required.

**Refer Action Plan no. 4**

## Outlook

### Police reform

31. It is anticipated that the 2012/13 financial statements will be the final set of accounts prior to the creation of the Police Service of Scotland under Police Reform. As such the accounts may be subject to greater scrutiny and media attention than in prior years and the board should ensure that they are robust and of high quality. Accounts preparation will undoubtedly be performed against a backdrop of intense activity surrounding organisational change and this will provide an additional challenge to the Board.

**Refer Action Plan no. 5**

# Financial position

32. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
33. Auditors consider whether audited bodies have established adequate arrangements and examine:
  - financial performance in the period under audit
  - compliance with any statutory financial requirements and financial targets
  - ability to meet known or contingent, statutory and other financial obligations
  - responses to developments which may have an impact on the financial position
  - financial plans for future periods.
34. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

## Financial results

35. The board has reported an excess of expenditure over income of £171.194 million in the Comprehensive Income and Expenditure Statement (£10.601 million excess of income over expenditure in 2010/11). This change is largely a consequence of accounting requirements for the board's net pension liabilities. Following adjustment of the reported net position to reflect differences in the statutory accounting requirements and management accounting practice (disclosed at note 12 of the financial statements) a deficit of £2.8 million was reported (£4.8 million surplus in 2010/11).
36. There was £5.291 million of capital expenditure during 2011/12. The majority of this expenditure (£4.614 million) was provided by Government Grants and Capital contributions with the balance of £0.677 million being financed from revenue.

## Budgetary control

37. Revenue and Capital Monitoring Reports were presented to Audit and Scrutiny Committee on the three, six and eight month position. Monthly budgetary control reports outwith those reported to the Audit and Scrutiny Committee are considered by the Treasurer and Force Executive. However, the budget reporting throughout the year presented an accurate forecast of the year end financial outturn with a final budgetary surplus of £3.3 million from the initial budget.
38. The Board's performance against budget has been summarised by the Treasurer in the foreword to the Financial Statements. The most significant favourable variances during the year were police pay and overtime, police staff costs and ill health/injury retirements. These were partially offset by adverse variances in service running costs and income.

## Financial position

39. At the end of the reporting period, the board had a general fund balance of £7.4 million of which £2.1 million has been earmarked against future commitments. Future commitments include a contribution to the approved 2012/13 revenue budget, crime prevention activity, unspent grant income and future national and local organisational transformation. The latter commitment is subject to further agreement of specific proposals by the board. We consider that the level of unallocated general fund balance held by the board is adequate and that year end balances are within the limits set by the Scottish Government for police boards.
40. Exhibit 1 contains a summary of significant reserves and balances. The most significant movement is in the unusable reserve balance. This movement is almost entirely due to the movements in the pensions reserve resulting from actuarial estimates.

### Exhibit 1: Reserves

Description	31 March 2011	31 March 2012
	£ million	£ million
General Fund	10.585	7.362
Capital Receipts Reserve	0.216	0
Capital Grants Unapplied Reserve	0.195	0.195
<b>Total Usable Reserves</b>	10.996	7.557
Unusable Reserves	(1,553.794)	(1,837.138)
<b>Total Board Reserves</b>	(1,542.798)	(1,829.581)

Source: Lothian & Borders Police 2011/12 financial statements

## Capital investment and performance 2011/12

41. During 2011/12 the Board incurred capital expenditure of £5.291 million across a range of assets. This included expenditure of £1.785 million to maintain the vehicle fleet and £1.839 million to upgrade the property portfolio to ensure compliance with Home Office regulations. The board also spent £1.572 million on IT projects and £0.1 million on ACPOS National IT Projects.
42. The board has not commenced any significant capital projects during the year given the anticipated move to the Police Service of Scotland. We consider this to be an appropriate approach.

## Treasury management

43. Treasury management activity is undertaken by the City of Edinburgh Council on behalf of the board. The City of Edinburgh Council Loans Fund provides capital to the board for capital expenditure funded by borrowing. No new capital expenditure funded by prudential borrowing occurred during the year and previous capital advances of £2.364 million were repaid by the board to leave an outstanding balance of £24.501 million. The Board's return on investments performed relatively well when compared to interest rate benchmarks, however the absolute return was very low given difficult current market conditions.

## Financial planning to support priority setting and cost reductions

44. The responsibilities of the Board are expected to transfer to the Police Service of Scotland on 1st April 2013. Financial plans have therefore been focussed on the short term goals that are considered achievable in that timeframe.

## Asset management

45. As previously mentioned, the board has a moratorium on new capital projects. Existing assets have been maintained to ensure that operational capacity remains intact and that they comply with legislation and regulations. The use of assets by the new force is being considered as part of the preparatory work undertaken by the National Police Reform Team.

## Workforce reduction

46. During 2011/12 the Board administered an early retirement scheme for police staff. Early departures were agreed with 52 members of staff at a combined redundancy/pension strain cost of £1.663 million. These early departures are expected to yield an annual saving of approximately £1.7 million to the Board. This scheme was restricted to police staff and posts that applied successfully have been deleted from the establishment. Any potential negative effect on board performance was considered before applications were approved.

## Partnership working

47. Lothian and Borders Police is a member of the five Community Planning Partnerships hosted by constituent councils. The board contributes to single outcome agreements covering a range of themes. For example, in the Edinburgh Community Safety Partnership, Lothian and Borders Police have a key role in:
- reducing the impact of violence and abuse
  - working towards ensuring that individuals and communities affected by alcohol and drugs are safer
  - improved home and neighbourhood security and safety.
48. In response to a request from the Cabinet Secretary for Finance, Employment and Sustainable Growth, the Accounts Commission has led development work, with scrutiny

partners, on how audit and inspection can support the delivery of better outcomes by Community Planning Partnerships. This will continue to evolve in 2012/13.

49. Routine partnership activity includes work undertaken with Licensing Standard Officers, Environmental Wardens, the weekend City Centre dispersal programme, the A&E injury surveillance programme, and other partnerships challenging disorder around alcohol and Licensed Premises.

## Outlook

### 2012/13 budget

50. The 2012/13 budget has been set at a comparable level with 2011/12. Budgeted expenditure is £230.589 million (2011/12: £232.007 million) and budgeted income is £228.321 million (2011/12: £230.207 million) with a resultant deficit of £2.268 million. This represents a decrease in expenditure of 0.6% and a decrease in income of 0.8%. 2012/13 will be the final year of operation of Lothian & Borders Police Board before responsibilities transfer to the Police Service of Scotland and the most significant risks are likely to be in the transition to the new body.

# Governance and accountability

51. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
52. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
53. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
  - corporate governance and systems of internal control
  - the prevention and detection of fraud and irregularity
  - standards of conduct and arrangements for the prevention and detection of corruption.
54. In this part of the report we comment on key areas of governance.

## Corporate governance

### Processes and committees

55. The Police Board and the Audit and Scrutiny Committee are the two main committees within the board. Scrutiny of finance and police performance has been delegated to the Audit and Scrutiny Committee from the Board. This structure has been in place for the full year and we are not aware of any plans to change it which we consider appropriate prior to the move to a single police force.
56. Our audit work for the year has not identified any weaknesses in the current arrangement and we are content that senior finance officers have access to and present regular reports to both committees.
57. The continuing role of elected members is essential during the remaining months before the creation of the Police Service of Scotland. Members will oversee the transition and effective governance is particularly important at this time of change.

### Internal control

58. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial

systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.

59. The key controls within financial systems should operate effectively to accurately record transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. As part of our audit, we reviewed the high level controls operating and concluded that, overall, the system of internal control was operating effectively. The review identified a small number of areas where controls could be strengthened and these were reported to management in May 2012. We adjusted our financial statements approach to ensure appropriate coverage of these areas and no further issues were identified.
60. A key element of our work on internal controls is the extent of reliance that we can place on the work of internal audit. Our review established that the work of internal audit is of a good quality allowing us to place reliance on a number of areas including corporate governance, payroll, income and budget monitoring. This not only avoided duplication of effort but also enabled us to focus on other key risk areas.

## Prevention and detection of fraud and irregularities

61. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
62. The overall arrangements for the prevention and detection of fraud are satisfactory. The board has a range of measures in place to prevent and detect fraud, including an anti-fraud and corruption policy and a whistle-blowing policy. There are defined procedures for handling suspicions, allegations or evidence of fraud or other irregularities, including the role of internal audit in alleged fraud investigations.

### NFI in Scotland

63. Audit Scotland has coordinated another major counter-fraud exercise working together with a range of Scottish public bodies, external auditors and the Audit Commission to identify fraud and error. This exercise, known as the National Fraud Initiative in Scotland (NFI), is undertaken every two years as part of the statutory audits of the participating bodies. The latest exercise started in October 2010 and was reported upon in May 2012. The next round of NFI commenced in June 2012, and expanded the range of data sets and bodies.
64. The NFI works by using data matching to compare a range of information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error which are called 'matches'. Where matches are identified these are made available to bodies to investigate via a secure web application. Bodies investigate these and record appropriate outcomes based on their investigations.
65. The most recent data matching exercise identified 336 matches for Lothian & Borders Police. These matches were investigated and no instances of fraud were identified. The conclusion of

investigations into four matches is still outstanding due to delays in responses from other public sector organisations. We will continue to keep this area under review in 2012/13.

## **Standards of conduct and arrangements for the prevention/detection of bribery and corruption**

66. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have appropriate arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. We have concluded that the arrangements in the board are satisfactory and we are not aware of any specific issues that we need to identify in this report.

## **Outlook**

67. At the end of financial year 2012/13 the responsibilities of the board will transfer to the Police Service of Scotland. Periods of significant organisational change are associated with increased risk of fraud and error and it is essential that strong governance and a good control environment are maintained during the transitional period.



# Best Value, use of resources and performance

68. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
69. Auditors of local government bodies have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
70. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
  - a performance audit which may result in the publication of a national report
  - an examination of the implications of a particular topic or performance audit for an audited body at local level
  - a review of a body's response to national recommendations.
71. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.
72. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
73. This section includes a commentary on the arrangements within the Board, notes any headline performance outcomes used by the Board and comments on any relevant national reports and the body's response to these.

## Management arrangements

### Best Value

74. During 2011, Lothian and Borders Police Board and Force were subject to a best value and inspection audit which was undertaken jointly by Her Majesty's Inspectorate of Constabulary for Scotland (HMICS) and Audit Scotland. The results of this review are discussed below.

### Performance management

75. Regular performance reports are presented to the Audit and Scrutiny Committee by the Chief Constable. Performance reports are balanced and include detailed appendices that enable adequate scrutiny of performance including identification of areas of weak performance and

geographic distribution of criminal activity. Committee members take a close interest in performance issues and the level of scrutiny of senior police officers is satisfactory.

76. Performance is reported across a range of measures including crimes of violence, public protection, serious and organised crime and drugs and alcohol.

### Community/user engagement

77. Customer satisfaction is one of the Board's principal performance measures. Every month 300 individuals who have dealt with the force are contacted by the board to rate their experience in several categories. The results are collated and presented over the previous four quarters to enable the identification of trends. The Chief Constable also provides a narrative interpretation of the data.

## Overview of performance in 2011/12

### Lothian & Borders Police Board performance measurement outcomes

78. Some of the measures of performance achieved in 2011/12 include:
- Citizen Focus and Public Reassurance - The force has exceeded targets for responding to callers against a background of a reduction in call volume. However, calls are taking longer to answer and the target of 90% of calls answered within 40 seconds was missed.
  - Customer Satisfaction - A generally positive performance was noted for the year. Keeping respondents informed of progress is emerging as crucial to their overall experience of the interaction with the force.
  - Violent Crime - The overall level of violent crime has reduced although this was expected given a spike in this category during 2010/11.
  - Public Protection - There was a large increase in recorded crime in this category during the year. Although an increase was anticipated given changes to the definition of rape, the increase was even greater than expected. The force also witnessed a significant increase in crimes related to prostitution although this may be a consequence of greater force activity in this area.
  - Antisocial behaviour - Although the level of crime involving criminal damage is above the national average, levels of this type of crime have reduced significantly. Increases in the recording and reporting of hate crime have however occurred.
  - Criminal Justice - The force exceeded its target of submitting 80% of reports to the Procurator Fiscal within 28 days and Children's Reporter within 14 days.
  - Managing and Developing People - Levels of absence among police staff have reduced, although absence levels among police officers are largely static.
  - Road casualties - Although there was an overall reduction in road casualties of 4% since last year, the number of fatalities increased by 5 (19%).
  - Dishonesty - Break-ins and thefts from homes and businesses have reduced. However there was an increase in break-ins and thefts from sheds and garages.

79. The overall picture is one of continuing improvement with reductions in the level of criminal activity in the highest profile categories.

## Local performance reporting

### Lothian and Borders Police and Police Board

80. This report was published in December 2011 and was largely positive about the board:
- The board is improving its approach to Best Value and now needs to develop a more consistent and shared understanding of board members' roles and responsibilities.
  - The board receives good information on force performance and the board's arrangements for oversight of the force's finances are effective. However the board needs to increase the level of challenge and provide greater consistency to scrutiny in practice.
  - The board demonstrates a strong commitment to improvement and good self-awareness of where it needs to improve, which is reflected in its comprehensive Best Value improvement plan.
  - There is strong ownership of the force's partnership and outcome-based policing philosophy at senior level within the force. The force is aware that it needs to strengthen the connection between the force's vision, performance management and internal governance arrangements to better demonstrate that it is effectively directing resources towards its strategic priorities.
  - The force has a well-developed approach to community policing which is highly regarded by key stakeholders and partners. Its comprehensive community policing model and effective local partnership working has enabled the force to deliver well-tailored policing solutions across the five council areas served by the force.
  - The force demonstrates a commitment to continuous improvement.
  - The force continues to demonstrate improved outcomes for its communities with year-on-year reductions in crime and disorder.
  - The force's senior management demonstrate clear leadership of equality and diversity, gaining national recognition.

## National performance reports

81. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest are detailed in Exhibit 2.

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**Exhibit 2: A selection of National performance reports 2011/12**

- |   |   |
|---|---|
| <ul style="list-style-type: none"><li>• The National Fraud Initiative in Scotland</li><li>• An overview of local government in Scotland - challenges and change in 2012</li></ul> | <ul style="list-style-type: none"><li>• Overview of Scotland's justice system</li></ul> |
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Source: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

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**The National Fraud Initiative in Scotland**

82. The National Fraud Initiative in Scotland was published in March 2012. This is the fourth time the National Fraud Initiative (NFI) has been undertaken in Scotland and the exercise included matched data from 81 public bodies including councils, police forces, fire and rescue services, health boards, the Scottish Public Pension Agency and the Student Award Agency for Scotland. Data was compared to identify inconsistencies suggestive of fraud or error. Subsequent investigation of these inconsistencies has resulted in outcomes worth £19.8 million.

# Appendix A: audit reports

## External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue	Date presented to Audit and Scrutiny Committee
Annual Audit Plan	20 March 2012	18 June 2012
Internal controls management letter	7 June 2012	18 June 2012
Report on financial statements to those charged with governance	24 September 2012	24 September 2012
Audit opinion on the 2011/12 financial statements	28 September 2012	24 September 2012
Audit opinion on the 2011/12 Whole of Government accounts consolidation pack	27 September 2012	n/a
Report to Members on the 2011/12 audit	31 October 2012	tbc

# Appendix B: action plan

## Key Risk Areas and Planned Management Action

Action Point	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	<p><b>Non-current assets</b></p> <p>The opening balances in the ledger had not been correctly brought forward for several sub-categories of non-current assets.</p> <p><b>Risk:</b> There is a risk that the ledger is inaccurate at the year end when it contributes to the ledger of the Police Service of Scotland.</p>	<p>Procedures to be reviewed to establish the possibility of amending brought forward balances without creating an in year movement. Adjustment would affect capital monitoring reports.</p>	Financial Accountant	31st December 2012
2	<p><b>Inventories</b></p> <p>As in 2010/11, the inventory valuation as stated in the accounting policies did not comply with the Code.</p> <p><b>Risk:</b> There is a risk of material error arising in the accounts if the valuation methodology in the Code is not followed.</p>	<p>Acknowledge that the accounting policy does not comply with the Code though Treasurer/Head of Finance satisfied that the risk of material error is low based on the low level of inventories and intention is to continue with the current policy for 2012-13.</p>	Head of Finance	31st March 2013
3	<p><b>Working papers</b></p> <p>While the working papers submitted with the draft accounts were generally of a good standard there were some areas for improvement.</p> <p><b>Risk:</b> There is a risk of delay in the audit process</p>	<p>Finance liaising with Treasurer to recruit Temporary Assistant Accountant to specifically work on year-end closedown and preparation of the Statement of Accounts. A key task of the role will be to review,</p>	Head of Finance/ Financial Accountant	31st March 2013

Action Point	Risk Identified	Planned Management Action	Responsible Officer	Target Date
	leading to deadlines being missed if fully cross-referenced working papers are not provided to the audit team.	update and improve working papers.		
4	<p><b>Whole of Government Accounts (WGA)</b></p> <p>The WGA package was not submitted to Audit Scotland by the deadline of 12 August 2012.</p> <p><b>Risk:</b> There is a risk of further deadlines being missed if the WGA accounts are not provided to the audit team in accordance with guidance.</p>	<p>Due to numerous changes to WGA format conflicting with resource availability timescale not achieved. This will be resolved in 2012-13 with the planned closure of the accounts earlier aided by the assistance of the Temporary Assistant Accountant resource.</p>	Head of Finance/ Financial Accountant	30th June 2013
5	<p><b>Police reform</b></p> <p>The preparation of the 2012/13 financial statements will take place following the transfer to the Police Services of Scotland. The board should ensure that procedures are in place prior to 31 March 2013 so that the accounts sign-off deadline of 30 September 2013 is achieved.</p> <p><b>Risk:</b> There is a risk that the 2012/13 financial statements deadlines will be missed.</p>	Treasurer and Head of Finance working on bringing forward year-end timetable and allocating additional resource in order to achieve the sign off deadlines.	Head of Finance/ Financial Accountant	31st March 2013