

Northern Joint Police Board

Annual report on the 2011/12 audit



Prepared for members of Northern Joint Police Board and the Controller of Audit
November 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 given an unqualified opinion on the 2011/12 financial statements of Northern Joint Police Board. Our audit identified one material weakness, relating to the arrangements for capital accounting, in the Joint Board's accounting systems. Additional work was undertaken by external audit and the Treasurer's staff to identify the amendments required, and the Joint Board adjusted the unaudited accounts to correct these and the other financial misstatements identified as part of the audit process. Amendments were also made to the unaudited financial statements to improve their presentation and internal consistency.

The Joint Board underspent its budget by £2.365 million in 2011/12. The Joint Board transferred the maximum permitted (£0.866 million) of this underspend to its general fund, resulting in a balance of £3.926 million as at 31 March 2012. The remainder of the underspend (£1.499 million) was returned to constituent authorities. Actual capital expenditure in 2011/12 totalled £1.239 million and was mainly funded by the Joint Board's capital grant from the Scottish Government.

The Joint Board has appropriate governance arrangements in place. During the year it reviewed its governance arrangements against the CIPFA/SOLACE Guidance Note for Scottish Authorities - Delivering Good Governance in Local Government (2007) and approved a local Code of Corporate Governance, setting out how the Northern Constabulary meets the six core principles set out in the guidance. Risk management arrangements are generally sound and no material weaknesses were identified in the internal control systems operated by the Joint Board.

The Joint Board has robust self-evaluation arrangements in place. Good progress has been made in implementing the actions set out in the best value improvement plan resulting from the joint best value audit and inspection visit undertaken by Audit Scotland and Her Majesty's Inspector of Constabulary in 2010. All but one of the improvement actions had been completed as at September 2012.

Outlook

The Scottish Police Service will become operational on 1 April 2013. There are a number of issues that remain to be resolved including the procedures governing the signing of the 2012/13 accounts, and the transferring of assets and liabilities to the new Service. Discussions are currently on-going with the Scottish Government to ensure a smooth transition.

Introduction

1. This report summarises the findings from the 2011/12 audit of Northern Joint Police Board (the Joint Board). The nature and scope of the audit were outlined in the Audit Plan presented to the Joint Board in March 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. An action plan setting out the high level risks we have identified from the audit is included at the Appendix. 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 Joint 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.
3. This report is addressed to members and the Controller of Audit and should form a key part of discussions with the Joint Board. Reports should be available to the Scottish Parliament, other stakeholders and the public, where appropriate.
4. Audit is an essential element of accountability and the process of public reporting. This report will be published on our website after consideration by the Joint 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.
5. The management of the Joint 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

6. 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.
7. 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.
8. Auditors review and report on, as appropriate, other information published with the financial statements, including the Explanatory Foreword, Statement on the System of Internal Financial Control 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 on the financial statements.

Audit opinion

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

Legality

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

Statement on the system of internal financial control

11. We are satisfied with the disclosures made in the Statement on the System of Internal Financial Control and the adequacy of the process put in place by the Joint Board to obtain the necessary assurances. Our audit did not identify any material weaknesses in the internal control systems operated by the Joint Board.

Remuneration report

12. 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. The disclosures within the 2011/12 financial statements include all eligible remuneration for the relevant Joint Board officers and elected members.

Accounting issues

13. Local authorities 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 Joint Board prepared the 2011/12 financial statements in accordance with the 2011 Code.

Accounts submission

14. The Joint Board's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. Amendments required to correct errors identified in the Joint Board's approach to capital accounting (see paragraph 15 below) were not agreed and processed in time to enable us to certify the accounts by the target date of 30 September. The financial statements were certified on 4 October and are now available for presentation to members and for publication.

Refer to Action Plan No. 1

Presentational and monetary adjustments to the unaudited accounts

15. Our audit identified one material weakness, relating to the arrangements for capital accounting, in the Joint Board's accounting systems. Additional work was undertaken by external audit and the Treasurer's staff to identify the amendments required, and the Joint Board adjusted the unaudited accounts to correct these and the other financial misstatements identified as part of the audit process:
- non-current assets (property, plant and equipment) and assets held for sale were understated by £0.899 million, the balance on the revaluation reserve was overstated by £0.461 million and the balance on the capital adjustment account was understated by £1.361 million due to errors in the approach to capital accounting;
 - financing and investment expenditure was understated by £25.712 million due to an error in accounting for the International Accounting Standard 19 (Employee Benefits) adjustment. The other side of this error impacted on the gross income, gross expenditure and net cost of services figures and so it did not impact on the deficit on the provision of services, or the Joint Board's reserves;
 - debtors and creditors were overstated by £81,000 due to an error in the amounts included as due to/from constituent authorities. This adjustment did not impact on the amount due to/from individual constituent authorities nor the deficit on the provision of services, or the Joint Board's reserves.

16. A number of amendments were also made to improve the presentation and internal consistency of the financial statements.

Refer to Action Plan No. 1

Going concern

17. The Joint Board's balance sheet as at 31 March 2012 has an excess of liabilities over assets of £347.316 million due to the accrual of pension liabilities in accordance with International Accounting Standard 19 (Employee Benefits). In common with similar public bodies, the Joint Board has adopted a 'going concern' basis for the preparation of its financial statements as the pension liabilities are based on long-term actuarial projections and do not require immediate funding other than through increased employers' contributions which are already built into the Joint Board's budgets and plans. We are satisfied that the process that the Joint Board has undertaken to consider the organisation's ability to continue as a going concern is reasonable.

Post balance sheet events

18. The 2011/12 financial statements contain the necessary post balance sheet event disclosure in respect of the Police and Fire Reform Act which received Royal Assent on 7 August 2012. As a result, responsibility for Police Services will transfer from local government to central government on 1 April 2013 and the Northern Joint Police Board will cease to exist.

Whole of government accounts

19. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The Joint Board submitted the consolidated pack to the Scottish Government prior to the deadline of 29 July. The revised consolidation pack, submitted to audit on 4 October, did not fully reflect the audited financial statements and so the audited return was not submitted until 8 October, a day after the deadline for completion of the WGA audit.

Outlook

Scottish Police Service Reform

20. The Scottish Police Service will become operational on 1 April 2013. There are a number of issues that remain to be resolved including the procedures governing the signing of the 2012/13 accounts, and the transferring of assets and liabilities to the Scottish Police Service. Discussions are currently on-going with the Scottish Government to ensure a smooth transition.

Financial position

21. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
22. 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.
23. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

Budgetary control

24. The Joint Board's net operating expenditure in 2011/12 was £60.546 million. This was funded by contributions from constituent authorities totalling £24.819 million, police grant of £26.302 million and pensions grant of £11.790 million, resulting in an underspend of £2.365 million (4%) against the Joint Board's budget. In the Explanatory Foreword to the financial statements, the Treasurer explains that the majority of this budget underspend is due to higher than anticipated income including increased funding for seconded officers, additional income from events and the provision of police services, and increased income from the rental of hill top sites.
25. The net operating expenditure (£60.546 million) differs from the Net Cost of Services of £53.052 million disclosed in the Comprehensive Income and Expenditure Statement by £7.494 million. This is because reports prepared for the Joint Board's monitoring purposes are prepared on a different basis from the accounting policies used in the financial statements. Note 17 to the accounts reconciles the figures in the budget monitoring report to the figures in the Comprehensive Income and Expenditure Statement. The majority of the difference is due to how the costs of retirement benefits and capital investment are treated. Retirement benefits are based on cash flows in the budget monitoring reports but based on the current service costs of benefits accrued in the year within the accounts. Capital investment is accounted for as it is financed in the budget, but when the assets are consumed within the accounts.

Reserves and funds

26. The Joint Board maintains a general fund to support future years' expenditure and as a contingency for unexpected events or emergencies. Under the Police Grant (Carry-forward Percentages) (Scotland) Act 2011, the Joint Board can carry forward up to 8% of the total funding received for that year. The Joint Board transferred the maximum permitted (£0.866 million) of its underspend to its general fund at the year-end, resulting in a general fund balance of £3.926 million (8% of Police Grant and requisitions) as at 31 March 2012. The remainder of the underspend (£1.499 million) was returned to constituent authorities.
27. Capital expenditure in 2011/12 totalled £1.239 million financed by capital grant of £1.064 million, and capital funded from revenue of £0.175 million. During the year capital expenditure was incurred to upgrade police houses to meet Social Housing Standards and to replace fleet vehicles.

Outlook

2012/13 revenue budget

28. The Joint Board, like all public sector organisations, faces a challenging financial climate and has been proactive in seeking ways to meet these challenges. In January 2012, the Joint Board set its 2012/13 revenue budget at £51.572 million, an increase of 1.18% on the previous year. Additional funding of £2.227 million has since been secured from the Scottish Government resulting in a revised revenue budget of £53.799 million. The Joint Board's latest revenue monitoring report, based on the position as at 30 June 2012, projects that the estimated outturn will be £1.137 million less than budget at 31 March 2013.

2012/13 capital plan

29. In March 2012, the Joint Board approved a capital programme totalling £4.252 million to be funded by capital grant (£0.923 million), capital receipts (£2.429 million) and capital funded from revenue (£0.900 million). The 2012/13 budget is significantly greater than capital expenditure incurred in 2011/12 due to the inclusion of a new build police station in Fort William, at an estimated cost of £2.660 million.

Pension funding

30. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, and the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. In accounting for pensions, IAS19 is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying for them, even if the actual payment will be made years into the future. This requirement results in large future liabilities being recognised in the annual accounts.

31. The police officers' pension schemes and the injury benefit pension scheme are all unfunded and, therefore, have no assets to be valued. At 31 March 2012, the present value of the schemes' liabilities was £386.283 million and £9.027 million respectively, increasing from £309.539 million and £8.108 million in the previous year. These pension liabilities will fall to be met by serving police officers' contributions and by taxpayers (through pension grant from the Scottish Government) in the future.

32. The Joint Board's estimated pension liabilities for civilian staff at 31 March 2012 exceeded its share of the assets in the Highland Pension Fund by £13.479 million, increasing from £8.097 million in the previous year. This liability will be made good by increased contributions over the remaining working lives of the employees, as assessed by the scheme's actuary.

Governance and accountability

33. 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.
34. 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.
35. 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.
36. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

37. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account and support the modernisation agenda. The Joint Board has appropriate governance arrangements in place. Elected members have oversight of the financial resources and receive revenue and capital budget monitoring reports at each Joint Board meeting. The responsibilities of the Chief Constable, Treasurer and the Northern Joint Police Board in relation to budget monitoring and review are set out in Financial Regulations.
38. During 2011/12, the Joint Board reviewed its governance arrangements against the CIPFA/SOLACE Guidance Note for Scottish Authorities - Delivering Good Governance in Local Government (2007). A local Code of Corporate Governance, setting out how the Northern Constabulary meets the six core principles set out in the guidance, was approved in November 2011.
39. The Joint Board has established an Audit Working Group with the remit to scrutinise policy and resources, consider audit (internal and external) and inspection reports, and consider best value issues and risk management procedures. This Group meets four times a year and is generally well attended by members and officers who respond to queries raised.

Member training

40. The Accounts Commission recommends that local authorities give priority to the continuous professional development of their members. The local government elections, in May 2012, resulted in changes to the membership of the Joint Board and the election of a new Vice Convener. Induction training has been provided for members to ensure that they are clear about their roles and responsibilities.

Internal control

41. Internal audit plays a key role in the Joint Board's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. Our overview of the internal audit service provided by the Highland Council's Internal Audit section confirmed that the section operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government.
42. The Joint Board's financial transactions are processed through The Highland Council's financial systems. Our review of these systems was conducted as part of the council audit, supplemented by specific audit work on the Joint Board's financial statements. We did not find any significant control weaknesses in relation to the operation of the Joint Board's main financial systems. We also placed reliance on the Head of Internal Audit and Risk Management's opinion that 'reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal control systems for the year to 31 March 2012.'

Risk Management

43. Risk is the threat that an event, action or inaction will adversely affect an organisation's ability to achieve its objectives. Risk management is the process of identifying, evaluating and controlling risks. Risk management supports decision making and contributes to performance.
44. The Force maintains a register of the significant risks it faces which is regularly reviewed by the Audit Working Group. The risk register provides elected members with details of each risk identified, its potential severity, and the controls management have put in place to mitigate or manage its impact. Risk is also a standing item on all Joint Board agendas.
45. During the year, Internal Audit reviewed the Force's risk management arrangements and concluded that there was generally a sound system in place. A total of six recommendations were made to further enhance and improve the Force's risk management arrangements.

Prevention and detection of fraud and irregularities

46. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
47. The Joint Board has appropriate arrangements in place to prevent and detect fraud and irregularities. These arrangements include a professional standards and conduct policy, a corruption investigation policy and a whistle blowing policy.

National Fraud Initiative in Scotland

48. The National Fraud Initiative in Scotland (NFI) uses 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.
49. The previous data matching exercise started in October 2010, with overall findings reported in May 2012. As part of this exercise, the Joint Board followed up 17 matches. No frauds were identified but two instances of incorrect National Insurance numbers held by the Joint Board were found and corrected. The latest round of NFI started in June 2012.

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

50. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper 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 Joint Board are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Best Value, use of resources and performance

51. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
52. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. Auditors of local government bodies also 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.
53. 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.
54. 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.
55. This section includes a commentary on the Best Value/ performance management arrangements within the Joint Board. We also note any headline performance outcomes/ measures used by the Joint Board.

Best Value

56. The Joint Board received a joint Best Value audit and inspection visit from Audit Scotland and Her Majesty's Inspector of Constabulary in 2010, with the joint report published in April 2010. The report concluded that *'the Northern Constabulary and the Northern Joint Police Board have established many of the key elements of best value'*. Some areas for further development were highlighted in the report and, in response an improvement plan was developed setting out how the Joint Board and the Force intended to address these. Progress against these actions is regularly reported to the Audit Working Group. The latest report, as at September 2012, highlights that the Joint Board has completed all but one of its twenty-four improvement actions.

Self-evaluation

57. The Joint Board has robust self-evaluation arrangements in place. Elected members have participated in two European Foundation for Quality Management (EFQM) self-assessment exercises (in 2009 and 2011) and monitor the implementation of the resulting action plans through the Audit Working Group.

Use of resources

Workforce planning

58. The full impact of the move to a single Scottish Police Service on the Joint Board's existing workforce is still unclear, resulting in continued uncertainty for many staff, particularly those employed in support services. This uncertainty is likely to impact on staff morale and motivation. The challenge for the Joint Board will be to ensure this does not adversely impact on service delivery.

Procurement

59. In last year's Annual Report on the Audit we reported that the Joint Board's procurement processes were underdeveloped. No procurement strategy and associated action plan was in place, key procurement indicators were still to be developed and there was a lack of member scrutiny of the procurement process. As part of the reform process, a national procurement strategy is being developed for implementation throughout the new Scottish Police Service.

Overview of performance in 2011/12

Performance management

60. Quarterly performance reports aligned with the Force objectives have been submitted to the Joint Board since May 2011. These are used to populate the Scottish Policing Performance Framework returns and form the basis of the Force's annual Public Performance Report. The performance information is updated daily and is available on the Force's website.

Scottish Policing Performance Framework (SPPF) indicators

61. In common with other forces, Northern Constabulary compiles and submits performance information in line with the SPPF framework developed to provide a suite of performance measures reflecting the breadth and variety of policing activity across Scotland. The Association of Chief Police Officers in Scotland produce quarterly and annual performance reports based on the returns made by all Scottish forces, including commentary on significant variations in performance at a national level.
62. The 2011/12 annual report's commentary makes one reference to Northern Constabulary, highlighting that the Force continues to experience an increase in the number of 999 calls received, and that whilst performance is marginally below target (to answer 90% of these calls within 10 seconds), it is still responding to a significant number of calls within this timeframe.

63. In previous Annual Reports on the Audit, we have reported that not all SPPF indicators were collected and submitted by Northern Constabulary. We are pleased to report that data on emergency response time indicators was submitted during 2011/12. A user satisfaction survey of victims of crime has been in place since October 2011 and data for these indicators will be submitted in 2012/13.

Public performance reporting

64. The Joint Board has a statutory duty to make arrangements for reporting to the public on the outcome of the performance of their functions as set out in the Local Government in Scotland Act 2003. Each year, the Joint Board publishes a public performance report setting out progress made against the Force's strategic priorities by each of the operational divisions and support services. The report for 2011/12 is now available on the Force's website.

Outlook

65. At the end of the current financial year the responsibilities of the Joint Board will transfer to the new Scottish Police Authority. During the transitional period the Joint Board needs to maintain its focus on the management of performance.

Appendix: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	14, 15 & 16	<p>Financial statements</p> <p>Our audit identified one material weakness, relating to the arrangements for capital accounting, in the Joint Board's accounting systems. Additional work was undertaken by external audit and the Treasurer's staff to identify the amendments required, and the Joint Board adjusted the unaudited accounts to correct these and the other financial misstatements identified as part of the audit process. Amendments were also made to the unaudited financial statements to improve their presentation and internal consistency.</p> <p><i>Risk: potential misstatement of the Joint Board's income, expenditure and year-end financial position. If material amounts are involved, the accounts may be qualified.</i></p>	<p>The arrangements for preparing the capital accounting working papers for 2012/13 will be updated for the changes resulting from this audit, thus ensuring that there will be no ongoing consequences for the capital accounting processes in the 2012/13 accounts.</p>	Treasurer	January 2013