

Central Scotland Joint Police Board

Annual Audit Report 2012-13

September 2013



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1. Executive Summary

Introduction

The Accounts Commission for Scotland appointed Grant Thornton UK LLP as auditors to Central Scotland Police Joint Board (the Board) under the Local Government (Scotland) Act 1973 from the period 2011-12. This is therefore the second year of our appointment, but will be the final year as the Force became part of Police Scotland on 1st April 2013.

This document summarises our responsibilities as external auditors for the year ended 31 March 2013 and our approach to issues impacting the Board during the year.

Overall Conclusions

We use the table below to highlight the key findings emerging from each aspect of our work during 2012-13. The Board ceased to exist on 31 March 2013. Our testing was therefore focused on the appropriateness and value for money of decisions made during the year, in preparation for police reform. We found no concerns in this regard.

The Board's remaining usable reserves, of £1.245 million, will be returned to constituent councils.

Acknowledgements

We would like to take this opportunity to record our appreciation for the kind assistance provided by the Finance Team and other staff during our audit.

Key Findings

Reporting Area	Our Summary
Financial Position	<ul style="list-style-type: none"> The Board's usable reserves remaining at the year end amounted to £1.245 million, and will be returned to the constituent local authorities, in line with the split of funding provided by the three local authorities.
Financial Statements	<ul style="list-style-type: none"> We have given an unqualified opinion on the financial statements of the Board. The draft financial statements were of a good standard and, as a result, we have proposed only minor adjustments.
Governance	<ul style="list-style-type: none"> Governance arrangements worked well in the run up to the transition to the national police force. The former areas of Central Scotland Police now form the Forth Valley division of Police Scotland, and local policing plans have been established.
Performance	<ul style="list-style-type: none"> The Board performed well against the indicators within the Scottish Police Performance Framework, with improvements noted in a number of areas. The key area where performance declined related to road traffic incidents. The Force Improvement Plan and related monitoring arrangements ensured that the Board continued to develop and respond to the Best Value and Inspection of Central Scotland Police, carried out by Audit Scotland and HMICS in 2012.

2. Introduction

Introduction

The Accounts Commission for Scotland appointed Grant Thornton UK LLP as auditors to Central Scotland Joint Police Board (the Board) under the Local Government (Scotland) Act 1973 for the period from 2011-12.

This report has been prepared for the benefit of discussion between Grant Thornton UK LLP and the Board.

Our responsibilities

It is a condition of our appointment that we meet the requirements of the Code of Audit Practice, which is approved by the Accounts Commission and the Auditor General for Scotland. The most recent Code was published in May 2011 and applies to audits for financial years starting on or after 1 April 2011.

The Code of Audit Practice highlights the special accountabilities that are attached to the conduct of public business and the use of public money. This

means that public sector audit must be planned and undertaken from a wider perspective than the private sector. We are therefore required to provide assurance, not only on the financial statements and annual governance statement, but also on Best Value, use of resources and performance.

Our Annual Report

This report summarises the findings from our 2012-13 audit of the Board. The main elements of our audit work in 2012-13 have been:

- the audit of the financial statements, including a review of the statement on the system of internal financial control
- a review of corporate governance arrangements, internal financial controls and financial systems
- the audit of statutory performance indicators.

The key issues arising from these activities are summarised in this annual report.

3. Financial Position

At 1st April 2013, the Force merged with other Scottish Police Boards to form Police Scotland. Arrangements were made to demit the Board's closing uncommitted reserves back to funding local authorities and the Scottish Government. At the year end, the Board had £1.245 million to be returned to constituent authorities.

Financial Position

During the budget setting process, the Board sought to ensure that the requisition from constituent authorities was minimised in 2012-13, while managing a reduction in Police Grant of £200k. The Board approved a transfer from reserves to support the revenue budget totalling £0.5 million. Savings were also identified and the Board therefore made a reduction in the requisitions to constituent councils of around £2.1 million, to £23.34 million in 2012-13 (2011-12: £25.45 million).

The Board's policy has been to maintain general reserves of 1% of the budget, which equates to around £0.5 million. At 31 March 2013, the Board reported reserves to be returned to constituent authorities of £1.245 million. On 1st April 2013, all useable reserves were split between the requisitioning authorities, and the reserves will be reallocated between the Scottish Government and each council using a 51: 49 ratio, in line with historical funding patterns. This liability at the balance sheet date therefore meant that the Board reported zero useable reserves at the year end.

Comprehensive Income and Expenditure Statement

The main changes in the Board's Comprehensive Income and Expenditure during the year was due to actuarial losses on pension fund liabilities. As Table 1, highlights, the Board reported total net comprehensive expenditure in year of £93.4 million (2011-12: £41.4 million).

This fully reflects less favourable actuarial assumptions at 31 March 2013. Other costs, including the net cost of Police Services reduced by £6 million during the year.

As Police Scotland is a central government body, all future pension liabilities will become the responsibility of the Scottish Government.

Table 1: Financial Results for 2011 and 2012

	2012-13	2011-12
	£'000	£'000
Net cost of Police services	54,379	60,413
Other operating expenditure	(8)	(177)
Financing and investment income	22,453	23,778
Taxation & non-specific grant income	(48,184)	(50,614)
(Surplus)/ Deficit on the provision of services	28,640	33,400
Actuarial (Gains) / Losses on Pension Fund and Injury Benefits	64,757	8,004
Total comprehensive (income) and expenditure	93,397	41,404

Source: Central Scotland Joint Police Board Statement of Accounts

Expenditure in 2012-13

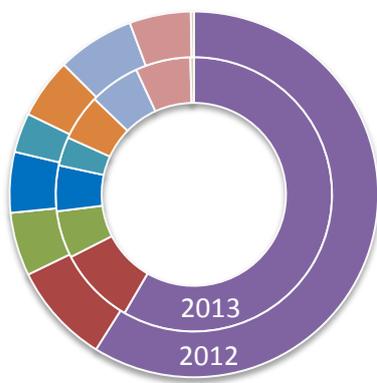
The Board largely performed in line with budget. A total of £545k was drawn from revenue reserves. This related to £342k, agreed in the budget setting process as a way of reducing requisition from constituent local authorities. A further £203k was drawn down from earmarked reserves, including £150k for the purchase of protective personal equipment. We were satisfied that this expenditure was properly incurred.

Spending throughout 2012-13 continued to be directed in line with priorities within the Force Strategic Plan 2011-15, and the Scottish Government's emphasis on front line policing.

We reviewed how expenditure during 2012-13 compared to that in the prior year. Figure 2 highlights

that proportionally more was spent on national policing, reflecting increased secondments and support for core events such as the Olympic Games.

Figure 2: Expenditure in 2013 was broadly in line with the prior year, with proportionally more spent on national policing



- Local Policing
- Dealing with the Public
- Criminal Justice
- Roads Policing
- Specialist Operations
- Intelligence
- Specialist Investigations
- National Policing
- Other corporate costs

Source: Central Scotland Joint Police Board Statement of Accounts

Capital Expenditure

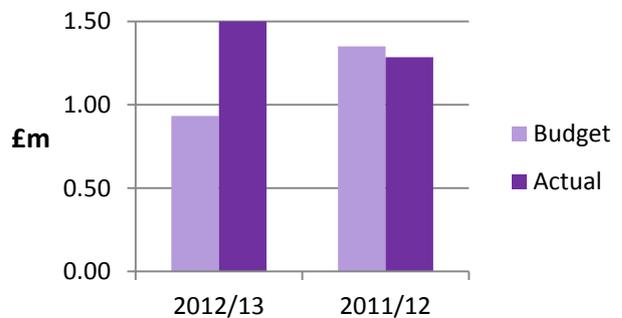
There was a 25% reduction in the level of capital grant received from the Local Authorities. This was a result of an agreement between COSLA and the Scottish Government, which sets the level of core police capital funding to be paid via the local authorities. After taking additional sources of capital funding into account, from the SPSA ICT funding and capital receipts, the Board had a capital budget of £934k (2012: £1.35 million).

Final capital expenditure at 31 March 2013 was £1.497m. The Board applied all capital receipts during 2012-13, totaling £0.5 million, from capital receipts of £286k generated from slippage of capital projects in the prior year, and the Board also disposed of additional assets, which were identified as no longer required.

Capital expenditure predominantly related to the upgrade of assets which would remain in use in the new national police force. Some essential capital upgrades were undertaken as a result of an audit which highlighted areas where improvements in security were needed to be made to ensure compliance with standards.

The Board was informed through the year of changes to the capital budget, and available capital resources.

Figure 3: Capital expenditure rose in 2013 and was above budget for the year



Source: Central Scotland Joint Police Board Statement of Accounts

4. Financial Statements

We intend to give an unqualified audit opinion on the financial statements

Introduction

We have audited the financial statements of Central Scotland Joint Police Board in accordance with our Audit Plan issued in January 2012.

Preparation of Accounts

The accounts and working papers were presented for audit on 1st July 2013, in accordance with our audit

timetable. The standard of working papers was of a very high quality, and is reflected in the minor proposed adjustments that we identified during the audit.

Opinion

We intend to give an unqualified opinion on the financial statements for 2012-13.

Matters Identified at the Planning Stage

	Matter Identified	Audit Commentary
1	<p>Financial Pressures</p> <p>There was continuing pressure on police boards when setting the 2012-13 budgets, which, without careful planning and budget monitoring, threatened to have a negative impact on operational delivery, in order to make the savings required.</p>	<p>Expenditure was broadly in line with budget. Savings which were identified in setting the budget were achieved, and from a review of the SPIs, there were no issues with regards to operational delivery</p>
2	<p>National Police Reform</p> <p>At 1 April 2013, the existing 8 police boards were abolished and replaced by a new single national police authority. This raised a considerable risk for Central Scotland Police to maintain operational delivery during the period of transition.</p>	<p>It appears that the Board has managed this process well, we noted no issues during the final year of operation. Our review of Performance Indicators and the financial statements, did not note any negative indicators arising from the transition to the new police force.</p>
3	<p>VAT</p> <p>The new police authority is a Central Government which is required to account for VAT, whereas Central Scotland Police, as a Local Government body was exempt. This raised a risk around the year end cut-off for the treatment of VAT.</p>	<p>Our review of the treatment of VAT noted no issues. The final VAT return was completed by Stirling Council, under whose VAT registration Central Scotland Police sits. Our work on this did not highlight any discrepancies.</p>
4	<p>Expenditure</p> <p>The majority of the Board's expenditure related to staff costs. Due to the size of this expenditure, there is a risk of material misstatement if these are not coded correctly.</p>	<p>Our testing of a sample of staff costs did not note any issues with the coding of staff payments. We also agreed staff had been paid in line with their contract, and any overtime had been authorised in line with policy.</p>
5	<p>Reserves</p> <p>Central Scotland Police are required to transfer</p>	<p>We noted one adjustment relating to the insurance fund, which should have been reduced to 0 at the year</p>

	Matter Identified	Audit Commentary
	<p>all useable reserves as at the 31 March 2013 to its funding local authorities, in line with the guidance issued by Audit Scotland the Scottish Government.</p>	<p>end. This has been adjusted for in the financial statements.</p> <p>We also noted one issue relating to a transfer between reserves. This was a historic issue relating to the introduction of the Capital Adjustment Account. As this related to a non-material prior year adjustment, no restatement of the prior year figures was required.</p>

5. Financial Reporting Matters

Introduction

We use this section to comment on the key judgements, estimates and policies adopted by the Board that have an impact on the financial statements. We also describe the impact that changes identified during the audit process have had on the Statement of Accounts.

Commentary on key judgements and estimates

Going Concern

The Board's Balance Sheet records a significant net liability as a result of IAS 19 accounting adjustments to reflect the costs of pensions. The liability, of £528.6 million in 2012-13 reflects the unfunded Police Pension Scheme. This technical accounting treatment has had no impact on the underlying basis for meeting the Board's ongoing pension liabilities.

These costs have historically been met out from the Board's funding from Government Grants and contributions from constituent authorities under the Amalgamation Scheme 1995. The Central Scotland Police function has now transferred to Police Scotland. Under a Machinery of Government change, the new body falls within central government, and future liabilities will therefore be the responsibility of the Scottish Government.

We therefore agree with the Treasurer's assessment that it is considered appropriate to adopt a going concern basis for the preparation of the financial statements.

Uncertainty and estimates

The Board has drawn attention to the critical judgements and assumptions made in producing the financial statements within Note 3 to the Accounts. Note 3 highlights that the key uncertainty within the financial statements relates to the value of pensions liability. The Board uses independent actuarial experts to provide an estimate of the value of the liability each year. We have reviewed the qualifications and credibility of the actuary, and our actuarial team assumptions used by the actuary to underpin the financial liabilities. Our

review did not highlight any concerns in relation to the valuation provided by the actuary.

Revenue recognition

The predominant source of revenue for the Board is from Grants and requisitions from constituent councils. Revenue for this category of receipts is recognised when the amounts become due. Revenue with regard to goods and services is recognised when it becomes probable that economic benefits will flow to the Board. The basis of revenue recognition was found to be appropriate and in line with prior years.

Review of principal accounting policies

We have reviewed the financial statements and confirmed that the accounting policies appear appropriate and in line with sector expectations.

Audit Adjustments

Misstatements

We are required to communicate all uncorrected misstatements to you, other than those considered to be clearly trivial. There was one uncorrected misstatement relating to the recognition of grant income.

Comprehensive Income and Expenditure Statement	
	£'000
Unprocessed adjustments	
Adjustment to recognise grant revenues and corresponding expenditure	Dr £129k Cr £129k
Impact on deficit	Nil

Impact of misstatements

All adjusted misstatements are set out in detail in the table below. The adjustments proposed had no impact on the net liabilities, or the balance to be transferred to constituent authorities.

The summarised impact of audit adjustments

Balance Sheet	Increase/ (Decrease) in Net Liabilities
	£'000
Processed adjustments	
Adjustment to reduce reserves to 0 in line with the year end required accounting treatment	Dr £10k Cr £10k
Adjustment within reserves to remove a historical error relating to the Capital Adjustment Account.	Dr 186k Cr 186k
Impact on net liabilities	Nil

6. Governance

On 1 April 2013, each of the Police Boards and Police Forces in Scotland were replaced by a single police authority, the Scottish Police Authority, and a single police service, Police Scotland.

National Police Reform

The Board made good preparations to deal with the merger and was well-prepared for the transition. Although this required an investment of time and resources at a range of levels across the force, no issues with the delivery of service during 2012-13 were noted from this.

The Force has established revised governance arrangements with Clackmannanshire, Falkirk and Stirling Councils to respond to priorities with the Forth Valley area. A policing plan has been prepared for each locality for the first year following the transition.

Our testing of Internal Controls

As part of our audit work we reviewed the internal control environment in operation at Central Scotland Police. We did not note any control deficiencies which would require reporting to the Board as a result of this work.

Statement on the System of Internal Financial Control

A Statement on the System of Internal Financial Control (SSIFC) forms part of Central Scotland Police's annual accounts and summarises the internal control framework, including arrangements for risk management, financial governance and accountability.

We reviewed the SSFIC as part of our annual audit procedures and we are satisfied that it is line with our understanding of the internal controls in place at Central Scotland Police. We consider that the approach to monitoring and reporting risk management continued to be a key strength across the Force.

Review of Internal Audit

The Board's Internal Audit service is provided by Stirling Council. 40 days were planned and used in 2012-13, comprising four reviews. A planned review of HM Government's Information Assurance Maturity Model was not undertaken, as a review of bank reconciliations, which was not planned in the original internal audit plan, was performed instead. This review was carried out in order to provide assurance on the operation of this key control. Our external audit work did not highlight any issues with the bank reconciliations that would require reporting.

Due to the nature of the reviews carried out during 2012-13, we did not place formal reliance on the work of Internal Audit, but we reviewed their work to ensure that our work was appropriately focused, and to highlight where there were control weaknesses.

We found that the internal audit department is performing well. The Audit Plans are based on a risk assessment, and the scope and objectives of each planned review are presented to the Best Value and Audit Committee to ensure that the work will reflect the needs of the Committee. The reports are clear, concise and constructive, and target timescales are set for their release and agreement.

The Head of Internal Audit has concluded that 'reasonable assurance can be given on the effectiveness of internal financial controls in operation within the Board'.

Responsibility for Internal Audit after the year end has been transferred to Police Scotland, who have an in-house team in place to carry out reviews.

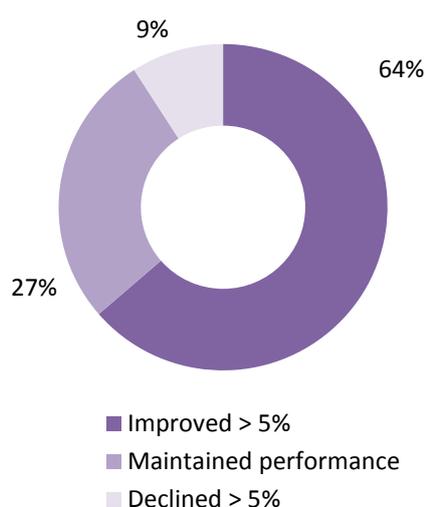
7. Performance

Central Scotland Police continued to perform strongly in the final year of operations.

Performance management arrangements

During 2012-13, all Police Boards in Scotland monitored their performance using the Scottish Policing Performance Framework (SPPF). The Framework establishes a single suite of indicators which reflect the variety of services provided by the Police Service, including responding to anti-social behaviour, road incidents, and measures of governance and efficiency. The Force reported on indicators across 4 categories, on outcomes, activities and inputs. Figure 4 demonstrates that the Force's performance against outcome measure relating to service response and public reassurance and community safety. We found that 91% of outcome measures had been maintained or improved on performance in 2011-12.

Figure 3: Performance against 2012-13 outcome measures continued to improve



Source: Central Scotland Police Statutory Performance Indicators

Performance declined in year for a total of 3 outcome indicators. Two of these indicators related to the level of fatal road collisions.

The number of complaints received by the Force has dropped by 21% between 2011-12 and 2012-13, reversing the trend in the prior year. In other areas Central Scotland Police has reported strong performance, including the proportion of emergency calls answered within 10 seconds continuing to improve. on the number of service user satisfaction rates. There has been a drop in the number of recorded crimes in most categories, with the exception of road traffic incidents.

Monitoring performance

The Board continued to use the Performance Framework and Force Improvement Plan to monitor progress against the strategic objectives within the Force Strategic Plan 2011-15. These arrangements also allowed the Board to monitor progress made in relation to the Best Value and Inspection of Central Scotland Police and Central Scotland Joint Police Board, carried out by Audit Scotland and HM Inspector of Constabulary in Scotland (HMICS).

One of the key challenges for Central Scotland Police was maintaining operational delivery in the Forth Valley region after the transition. In order to achieve this, a shadow management structure for the Forth Valley region was established and in operation from January 2013. A number of working groups were formed to ensure a smooth move to the new force was possible, and ensure communication across all levels of the force communicated with local authorities and partner agencies. Responsibility for monitoring performance has now been transferred to the new national police force.

Appendix A: "The Small Print"

Purpose of report

This report has been prepared for the benefit of discussions between Grant Thornton UK LLP, and the Central Scotland Joint Police Board (the Board).

The purpose of this report is to highlight the key issues affecting the results of the Board and the preparation of the Board's financial statements for the year ended 31 March 2013.

This document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

We would point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of the Board.

Responsibilities of the Board and auditors

The Board is responsible for the preparation of the financial statements and for making available to us all of the information and explanations we consider necessary. Therefore, it is essential that the Board confirm that our understanding of all the matters in this memorandum is appropriate, having regard to their knowledge of the particular circumstances.

Clarification of roles and responsibilities with respect to internal controls

The Board's management are responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the Best Value and Audit Committee that it has done so.

The Best Value and Audit Committee is required to review the Board's internal financial controls. In addition, the Best Value and Audit Committee is required to review all other

internal controls and approve the statements included in the annual report in relation to internal control and the management of risk.

The Best Value and Audit Committee should receive reports from management as to the effectiveness of the systems they have established as well as the conclusions of any testing conducted by internal audit or ourselves.

We have applied our audit approach to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you.

In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

Independence and robustness

Ethical standards require us to give you full and fair disclosure of matters relating to our independence.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

In accordance with best practice, we analyse our fees below:

	£
Fees payable to Audit Scotland	31,300
Total audit fees	31,300

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- significant findings from the audit



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