

# Northern Joint Police Board

## Annual report on the 2012/13 audit



Prepared for members of The Highland Council and the Controller of Audit  
October 2013

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

## 2012/13 audit findings

We have given an unqualified opinion on the 2012/13 financial statements of Northern Joint Police Board. Our audit did not identify any material weakness in the Joint Board's accounting systems, however a number of presentational and monetary errors were identified, and the Joint Board adjusted the unaudited accounts to correct these 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 £0.038 million in 2012/13, mainly due to additional income being received by way of specific grants and income from radio masts and services to the public. As the Board ceased to exist from 31 March 2013, in line with Scottish Government guidance, any uncommitted reserves were returned to constituent authorities and the Scottish Government. The Board returned £1.880 million to constituent authorities, and £3.005 million to the Scottish Government. Actual capital expenditure in 2012/13 totalled £3.677 million and was mainly funded by capital receipts and reserves.

The Joint Board had appropriate governance arrangements in place and 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 were generally sound and no material weaknesses were identified in the internal control systems operated by the Joint Board.

The Joint Board had robust self-evaluation arrangements in place. Good progress was 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 2013.

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# Introduction

1. The Police and Fire Reform (Scotland) Act 2012 wound up Northern Joint Police Board on 31 March 2013 and transferred the Board's functions to the new Scottish Police Authority (SPA). Residual accounting and reporting obligations were transferred to the Highland Council who supported the outgoing Board.
2. This report is the summary of our findings arising from the 2012/13 audit of Northern Joint Police Board. The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinions (i.e. on the financial statements) and conclusions on significant issues arising.
3. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). This sets out the wider dimensions of the public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance. The report is divided into sections which reflect the public sector audit model.
4. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management; however this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of Highland Council as the accounting authority for Northern Joint Police Board and no responsibility to any third party is accepted.
5. This report is also addressed to the Controller of Audit and will be published on our website after consideration by Highland Council.
6. Any previous audit recommendations for improvement (from internal or external audit) which have not been addressed by the joint board should be communicated to the SPA for implementation.

# 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 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

10. We have given an unqualified opinion that the financial statements of Northern Joint Police Board for 2012/13 give a true and fair view of the state of affairs of the Joint Board as at 31 March 2013 and of its income and expenditure for the year then ended.

## Legality

11. Through our planned audit work we consider the legality of the Joint Board's financial transactions. In addition, the Director of Finance of Highland Council 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

12. 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

13. 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 2012/13 financial statements include all eligible remuneration for the relevant Joint Board officers and elected members.

## Accounting issues

14. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the 2012 Code). We are satisfied that the Joint Board prepared the 2012/13 financial statements in accordance with the 2012 Code.

## Accounts submission

15. The Joint Board's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June, and were able to certify the accounts by the target date of 30 September. The financial statements are now available for presentation to The Council and for publication.

## Presentational and monetary adjustments to the unaudited accounts

16. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with the Director of Finance's staff who agreed to amend the unaudited financial statements. The effect of these adjustments was to increase the deficit on the provision of services by £0.098 million, increase other comprehensive income and expenditure by £0.267 million and increase net liabilities (and reserves) as recorded in the balance sheet by £0.365 million.
17. Two matters were identified with the accounting entries resulting from the transition to the new single Police Service. Whilst these entries are not in accordance with proper accounting practice, they are in line with Police and Fire Reform Guidance issued by the Scottish Government:
  - the Comprehensive Income and Expenditure Account includes an additional line to for the Transfer of Capital Reserve to the Scottish Government in order to reduce the balance on the capital receipts reserve £1.668 million to zero at 31 March 2013. The impact of this is to overstate the deficit on the provision of services, and total comprehensive income and expenditure by £1.668 million, and
  - the Comprehensive Income and Expenditure Account excludes income due from the Scottish Government to support the payment of redundancy and early retirement costs associated with Police Reform The impact of excluding this income is to overstate the deficit on the provision of services, and total comprehensive income and expenditure, by £0.297 million.

## Going concern

18. The Joint Board's balance sheet as at 31 March 2013 had an excess of liabilities over assets of £379.389 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 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 budgets and plans. We are satisfied that this judgement was appropriate in advance of the Joint Board's services passing to the Scottish Police Service on 1 April 2013.

## Post balance sheet events

19. The 2012/13 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.



# Financial position

20. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
21. 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.
22. . This section summarises the financial position.

## Financial results

### Budgetary control

23. The Joint Board's net operating expenditure in 2012/13 was £63.460 million. This was funded by contributions from constituent authorities totalling £21.321 million, police grant of £26.246 million, pensions grant of £11.926 million and utilising reserves of £3.926 million resulting in an underspend of £0.038 million (0.1%) 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 additional income being received for police services at local festivals, additional grant funding from seconded officers and for income from radio mast sites.
24. The net operating expenditure (£63.460 million) differs from the Net Cost of Services of £59.659 million disclosed in the Comprehensive Income and Expenditure Statement by £3.801 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

25. The Joint Board maintained a general fund to support future years' expenditure and as a contingency for unexpected events or emergencies. However as this was the final year of the Board before the move to a single force, the Scottish Government issued guidance to return any uncommitted reserves to the Scottish Government and constituent authorities in line with funding arrangements. The Board returned £3.855 million to the Scottish Government and £1.880 million to constituent authorities.
26. Capital expenditure in 2012/13 totalled £3.677 million financed by in year capital receipts of £1.885 million, and use of reserve balances of £1.792 million. During the year capital expenditure was incurred to upgrade facilities at Fort William, to refurbish police houses and hostels, and to replace fleet vehicles. After funding capital expenditure in 2012/13, a balance of £1.668 million existed on the Capital Receipts Reserve which is to be returned to the Scottish Government to support the capital commitments of £4.448 million held by the Board.

# Governance and accountability

27. 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.
28. 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.
29. 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.
30. In this part of the report we comment on key areas of governance.

## Corporate governance

### Processes and committees

31. 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 had appropriate governance arrangements in place. Elected members had oversight of the financial resources and received 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 were set out in Financial Regulations.
32. The Joint Board 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 met four times a year and was generally well attended by members and officers who responded to queries raised.

### Member training

33. 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 was provided for members to ensure that they were clear about their roles and responsibilities.

## Internal control

34. 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.
35. 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 2013.'

## Risk Management

36. 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.
37. The Force maintained a register of the significant risks it faces which was regularly reviewed by the Audit Working Group. The risk register provided elected members with details of each risk identified, its potential severity, and the controls management put in place to mitigate or manage its impact. Risk was also a standing item on all Joint Board agendas.

## Prevention and detection of fraud and irregularities

38. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
39. The Joint Board had 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

40. 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.

41. The latest NFI matching exercise began in January 2013. Northern Joint Police Board had five data matches, none of which have been recommended for investigation. To date none of the matches have been reviewed and closed however we would expect that these will be carried out by the Scottish Police Authority as soon as possible.

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

42. 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 were 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

43. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
44. 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.
45. 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.
46. 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.
47. 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

48. As part of the Best Value regime, local government bodies are required to comply with responsibilities in relation to community planning. Northern Joint Police Board has participated in community planning partnerships in Highland, Comhairle nan Eilean Siar, Orkney And Shetland; no issues have been identified by us for inclusion in this report.
49. Audit Scotland's Performance and Audit and Best Value Group undertakes a programme of performance audits on behalf of the Auditor General and Accounts Commission. Recent reports with an impact on the Police include:
  - Developing Financial Reporting in Scotland (Published July 2013)
  - Managing Early Departures from the Scottish Public Sector (published May 2013)

- Improving Community Planning in Scotland (published March 2013)

50. A performance audit on police reform is due to be published on 14 November 2013.

## Overview of performance in 2012/13

### Performance management

51. 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

52. 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.

53. In previous Annual Reports on the Audit, we have reported that not all SPPF indicators were collected and submitted by Northern Constabulary. The reporting and publication of 2012/13 SPPF returns is now a matter for Police Scotland and the Scottish Police Authority.

### Public performance reporting

54. 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 published a public performance report setting out progress made against the Force's strategic priorities by each of the operational divisions and support services. The Scottish Police Authority have decided that no legacy report will be published specific to the Northern Constabulary.

## Outlook

55. As the Board ceased to exist from the 01 April 2013 then the governance, financial and performance arrangements will fall to Police Scotland and Scottish Police Authority.