Strathclyde Joint Police Board

Annual Audit Report 2012-13

October 2013

Contents

1. Executive Summary

Introduction

The Accounts Commission for Scotland appointed Grant Thornton UK LLP as auditors to Strathclyde Joint Police Board (the Board) under the Local Government (Scotland) Act 1973 for the period 2011-12 to 2016-17. This is therefore the second year of our appointment. 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.

Our responsibilities

We carry out our audit in accordance with our statutory responsibilities under the 1973 Act and in accordance with the International Standards on Auditing (UK and Ireland).

The Police and Fire Reform (Scotland) Act 2012 (Supplementary, Transition, Transitory and Savings Provision Order 2013)

The Joint Police and Fire Boards were abolished as at 31 March 2013 by the Police and Fire Reform (Scotland) Act 2012. The above Order provides for the transfer of the Accounting and Reporting obligations of the Board to Glasgow City Council as the Accounting Authority.

The Executive Director of Financial Services and Depute Chief Executive of Glasgow City Council, as Treasurer for Strathclyde Joint Police Board is responsible for the preparation of financial statements which record its financial position as at 31 March 2013, and its income and expenditure for the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Board's financial statements present a true and fair view of the financial position.

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

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	• The accumulated balance of the General Fund of the Board at the point of transfer to the Scottish Police Authority was £36.9 million. Of this £33.5m have been distributed between the Scottish Government and Local Government on an agreed funding split. A balance of £3.4m remains for projects legally committed by the Board during 2012/13.
Financial Statements	• 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 presentational adjustments.
Governance	• Governance arrangements worked well in the run up to the transition to the national police force, and the former areas of Strathclyde Police now lie across a number of divisions including Greater Glasgow, Renfrewshire and Inverclyde, Lanarkshire and Argyle and West Dunbartonshire.
Performance	• The Board performed well against its Statutory Performance Indicators, with improvement in a number of areas, demonstrating that the final year of operation and the transitional changes required had not had a detrimental effect.

2. Financial Position

The Board faced a challenging year with reduced funding. To manage this position, reserves were drawndown during the year in line with the 2012-13 budget assumptions. Spend was broadly in line with budget.

Financial Strategy

When the revenue budget was approved in February 2012, it was set in the context of a very challenging financial settlement with the added challenge of the Scottish Government's intention to create a single Scottish Police Force. Included within the Revenue Budget Strategy was a savings target of £5.7 million to be achieved by a number of on-going Budget Initiatives. The Police Grant for 2012-13 was reduced by £273k from the prior year, coupled with a Scottish Government requirement to maintain police officer numbers at 17,234 for Scotland, the Strathclyde Police Authority figure being 8,279. As police officer salaries account for approximately 90% of cost of services the majority of the savings are required to be achieved from the remaining 10% of the Board's budget, impacting significantly on support services costs. The precept on constituent authorities was frozen at 2011/12 levels.

In September 2011 the Scottish Government announced a Police and Fire Reform Bill and began progressing plans to merge the eight current police forces into one national service. The Bill received royal assent in August 2012 and the merger took place on 1 April 2013.

Whilst there were a number of staff across the levels at Strathclyde seconded to the new Police Force, operational delivery was maintained, and there were no significant financial issues noted as a result of this.

Financial Position

At 31 March 2013, all useable reserves were allocated between the Scottish Government and constituent authorities. Initially all reserves were returned to constituent authorities with the Scottish Government's share being recovered through a redetermination of Revenue Support Grant in 2014-15. The basis of this allocation reflecting the historical basis of funding for Police as agreed through COSLA.

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 £860,099 million (2011-12: 281,021 million). This reflects less favourable actuarial assumptions at 31 March 2013.

Table 1: Financial Results for 2013 and 2012

	2012-13 £'000	2011-12 £'000
Net cost of services	441,515	497,392
Other operating income	(308)	(94)
Financing and investment expenditure	217,327	235,318
Taxation & non-specific grant income	(396,283)	(433,422)
(Surplus)/ deficit on the provision of services	**262,251**	**299,194**
(Surplus)/deficit on revaluation of property, plant and equipment	(1,809)	(2,629)
Actuarial (gains) / losses on Pension Fund and Injury Benefits	599,657	(15,544)
Total comprehensive income and expenditure	**860,099**	**281,021**

Source: Strathclyde Joint Police Board Statement of Accounts

Expenditure in 2012-13

The Board largely performed in line with budget. A total of £3.6m was drawndown from reserves in line with the 2012/13 budget strategy to meet prior year commitments and manage the overall budget strategy. The actual amount drawn down was £5.3m the difference was due to the application of £1.7m of the Devolved Budget Reserve.

The Board has held a policy of maintaining general reserve figures of 0.6% of budget, which is circa £30million. At 31 March 2013, after taking into account the £5.3m drawdown, the Board had total reserves of £43 million, which are now to be split between the requisitioning authorities and the Scottish Government. This level of reserves demonstrates the Board's ability to successfully manage budgets, and identify areas where savings can be made.

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. **Table 2** highlights that proportionally more was spent on local policing and public facing roles in line with the Board's priorities.

Table 2: Gross expenditure in 2013 was broadly in line with the prior year, with proportionally more spent on local policing.

	2012-13 £'000	2011-12 £'000
Local Policing	296,061	290,357
Dealing with the public	34,948	37,839
Criminal Justice	40,940	41,462
Road Policing	17,973	19,229
Specialist Operations	22,467	21,675
Intelligence	23,466	23,988
Special Investigations	38,943	38,813
Investigative Support	1,997	1,930
National Policing	22,467	18,588
Corporate & Democratic Core	1,315	1,330
Non-distributed Costs	1,720	64,315
	502,297	559,526

Source: Strathclyde Joint Police Board Statement of Accounts

Capital Expenditure

There was an 19% 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. Therefore after taking into account additional sources of capital funding, planned net expenditure for 2012/13 within the approved one year Capital Programme totaled £19.6 million.

Actual capital expenditure at 31 March 2013 was £16.7 million. Underspends were on building works and equipment. This expenditure was funded from capital receipts brought forward of £12.9 million and receipts generated in the year of £2.0 million. A further £2.6 million expenditure incurred was financed from current revenue and £1.8m capital grant was also applied

Capital expenditure predominantly related to the upgrade of assets, including operational land and buildings, which would remain in use in the new national police force.

We noted no cases of inappropriate capital expenditure. The Board was informed through the year of changes to the capital budget, and available capital resources.

Figure 1: Capital expenditure rose in 2013
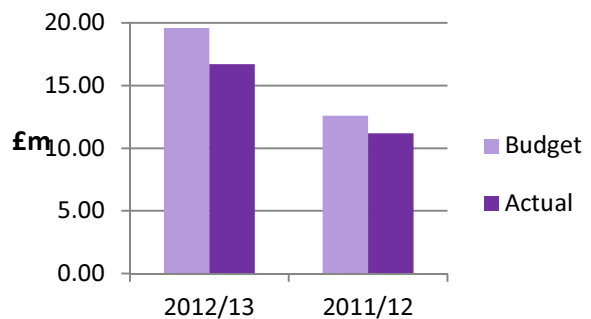
Source: Strathclyde Joint Police Board Statement of Accounts

3. Financial Statements

We have issued an unqualified audit opinion on the Board's 2012-13 financial statements. The Board supplied good quality draft financial statements and supporting working papers for audit

Preparation of Accounts

The accounts and working papers were presented for audit 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.

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 £5,226 million in 2012-13 predominantly reflects the unfunded Police Pension Scheme. However, this technical accounting treatment has had no impact on the underlying basis for meeting the Board's current and ongoing pension liabilities. These costs are met out of the Board's funding from Government Grants and contributions from constituent authorities under the Amalgamation Scheme 1995.

Furthermore, although Strathclyde Joint Police Board ceased to exist in 1 April 2013, the function of policing was transferred to Police Scotland. This is therefore being treated as a Machinery of Government change. Therefore this has no impact on the going concern principle.

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 Notes 3 and 4 to the Accounts. Note 3 highlights the key judgements in applying accounting policies within the financial statements and relates to the going concern basis in light of national Police reform, the pension liability and the valuation of the PFI scheme.

Revenue recognition

The predominant sources of revenue for the Board is from specific revenue police grant and local authority precepts. All revenue grants are matched with the expenditure to which they relate. 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 Findings

Misstatements

There were no misstatements reported in our Audit Findings Report. A number of minor presentational adjustments were made to the accounts including additional disclosures within the remuneration report.

Control weaknesses

We identified a lack of segregation of duties within an isolated sample of journals. This was reported within our Audit Findings Report.

Opinion

We have issued an unqualified opinion on the financial statements for 2012-13.

4.   Governance

On the 1 April 2013, responsibility for policing in the former Strathclyde Police area transferred to the new national police force.

Progress on National Police Reform

In June 2012, the Police and Fire Reform (Scotland) Bill passed through Parliament. Under this Act the eight current police and fire boards were abolished and a new single National Police Service established. Strathclyde Police has been closely involved in this progress, with a number of staff employed and seconded.

A number of Strathclyde staff were involved in the transition, and were seconded to the national police force. The Board made good preparations to deal with the changes 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.

Each local area had to produce a policing plan for the first year following the transition. Strathclyde Police was able to use the strong links it had built with its constituent councils to ensure that appropriate policing plans were built.

Our testing of Internal Controls

As part of our audit work we reviewed the internal control environment in operation at Strathclyde Police. We identified a lack of segregation of duties within an isolated sample of journals. This was reported within our Audit Findings Report.

Statement on the System of Internal Financial Control

A Statement on the System of Internal Financial Control (SSIFC) forms part of Strathclyde Joint Police Board'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 Strathclyde Joint Police Board.

Risk Management

The Board has developed a bespoke risk management system which includes a Risk Management Framework and Procedures, and an electronic risk register, which is used for monitoring all risks including strategic risks. This is supported by individual risk registers for each business area. The strategic risks are assigned to owners and are monitored by the Force Policy Group.

The Best Value and Audit Committee of the Board oversees the risk management arrangements, and receive quarterly updates on current strategic risks.

The final review of the Risk Management Framework was submitted to the Board in March 2013. This concluded that although monitoring would need to continue throughout the reform process, at the point of reporting, all risks were considered to be manageable.

Internal Audit

The Board's Internal Audit service is provided in-house. The original audit plan was based on a work programme of 733 days, comprising a number of reviews including system reviews, Best Value and corporate governance reviews, regularity audits and follow up audits. Due to vacancies within the Internal Audit department, the plan was revised to 700 days, with 705 days actually incurred. A number of reviews were outstanding as at 31 March 2013. These were concluded in the early part of 2013/14 and findings were reported to management.

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 highlight where there were control weaknesses.

Internal Audit provided an adequate level of assurance in their annual report stating that: "Whilst there is basically a sound system of internal controls operating within Strathclyde Police, there are some weaknesses which may put some of the system's objectives at risk".

5. Performance

Strathclyde Police was able to maintain service delivery during its final year of operation. The Best Value follow up report identified scope to improve oversight and challenge by the Board. The requirement to publish statutory performance indicators in-line with the Scottish Policing Performance Framework has not been met.

Best Value

The Best Value Audit and Inspection follow-up report was published in September 2012. The overall conclusion of the follow-up report was that the Authority can demonstrate improvement in a number of areas; however, the overall pace of change has been slow, and oversight and challenge by authority members of the joint Best Value improvement agenda and the schedule of tasks has been limited.

Statutory Performance Indicators

Under the Local Government Act 1992, the Board is required to publish a number of statutory performance indicators. The Scottish Policing Performance Framework (SPPF) began in 2007 and is designed to offer a range of performance measures that cover the breadth of police activity. These SPIs are divided into four areas; service response, public reassurance & community safety, criminal justice & tackling crime and sound governance & efficiency.

Throughout the year, regular performance monitoring reports were provided to the Full Authority. The last performance report which was considered at the March 2013 Authority meeting covered performance from 1 April 2013 to 31 January 2013.

The full year performance information has been submitted to Scottish Government and is included in the Scottish Policing Performance Framework Annual Report 2012-13.

Strathclyde Police have improved performance across a number of performance indicators including:

- percentage of users satisfied with the overall way the police dealt with the incident has increased from 72% in 2011-12 to 84% in 2012-13

- number of recorded crimes has reduced by 13% from 2011-12

- detection rates increased from 46% in 2011-12 to 50% in 2012-13

- percentage of working days lost due to sickness has reduced by 0.2% for police officers and 1.1% for police staff.

Appendix 1: Follow up of prior year findings

	Recommendation	Follow up	Status
1	Although there is currently no requirement to produce an Annual Governance Statement it is considered best practice.	Due to the signing requirements of an Annual Governance Statement, it is considered that the Statement of Systems of Financial Control should be maintained for the 2012-13 Strathclyde Joint Police Board.	**Closed**
2	There was no formal quality framework in place for the Internal Audit Service.	The Internal Audit manager completed a self -assessment in January 2013 against the HM Treasury Internal Audit Quality Assessment Framework which has prompted some changes in methodology. This will be revisited in March 2013. Joint IIA/CIPFA standards which become effective on 1 April 2013 have been reviewed and working practices assessed against compliance with new standards. An Internal Audit Charter has been drafted which incorporates best practice and includes KPI's for the service.	**Substantially Complete**
3	For the financial year 2012/13 the Internal Audit Service has not been fully resourced.	Appointments were made in the summer of 2012. The Audit Plan, which has had some slight changes, is due to be completed.	**Complete**
4	**Information technology - Privileged access to the network** Privileged access to the Network should only be granted to staff who require such access to perform their duties.	A review of the user accounts has been completed.	**Complete**
5	**Information technology - Password policy in the network** All network users should be forced to change their passwords every 42 days in line with the password policy. The Force should consider reducing the number of invalid logon attempts before a network account is locked out from 20 to a value between three to five.	Accounts are locked out for 30 minutes after 8 invalid logon attempts. The count of invalid logon attempts is reset after 30 minutes. We note that passwords are not set to expire where accounts are linked to Citrix management services.	**Partially implemented.**

6	**Information technology - Security in the Cyborg application** We recommend that the Cyborg application is amended so System Administrators are not able to see the passwords of other users. Cyborg System Administrators should change their passwords every 42 days and record this action in the Security Officer Control Log. Cyborg should force users to enter passwords consisting of at least six characters.	There are no changes in relation to this finding. The situation may change with the implementation of new payroll software for the single police force.	**Not implemented**
7	**Information Technology - Disaster recovery** The Force should produce a business continuity plan for the E-Financials application. This plan should detail the procedures to recover this application should the SPSA data centre at Govan be affected by a disaster. The continuity plan should be tested at least once on an annual basis to validate the effectiveness of the recovery arrangements. Test results should be documented and analysed to identify any issues that may hamper recovery operations in a real disaster.	Efinancials would be the system for the new single police force. A new upgraded version will be hosted in a server located in SPSA Govan. Strathclyde and SPSA share an instance of E-financials over different companies. Grampian and Lothian and Borders police forces share an instance of e-financials over different companies as well. However, the new single force will have a new and independent instance of E-Financials. Considering that the Single Police Force will start on 1 April 2013 and that the new single force will have an independent instance of e-financials, it is considered that this recommendation should be closed as it is not likely to be implemented.	**Closed**
8	**Information technology - Developers' access** Developers should not have privileged access to applications in their live environment. If this access is required for maintenance or support purposes, it should be granted on a temporary basis and a log of its activity should be reviewed afterwards.	SPSA Developers still have 'System Admin' access, however, further discussions have taken place in-house regarding this and the Force will shortly be looking at other access options:- - Only granting this level when access to the system is require to investigate a reported fault. The request would come into the Scope Lifetime Management Team who would grant access on a temporary basis. Scope has audit capabilities for user role application/removal, therefore, this could be monitored. - Creation of a new user role for Developers only.	**Not implemented**

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9	**Information Technology - Leavers** The monthly review of payroll vs. E-Financials accounts should be performed on a monthly basis. Any discrepancies should have their E-Financials accounts disabled until positive confirmation could be obtained about their continued employment or need to access this system. The Force should implement a monthly review process whereby network accounts that have not been used for a period of time (ie 90 days) are identified and disabled.	Review of inactive network accounts is not being performed. In relation to the e-financials review of accounts vs. payroll listing, we were advised that it had been done after our report was received but no evidence was retained. Given the lack of evidence, it is considered that the recommendation should be raised again.	**Not implemented**
10	**Information technology - New starter and leaver forms** The Force should produce and implement standard forms to request the creation and removal of new starter and leavers from E-Financials. New starter forms should detail the access rights in E-financials that should be granted to a new member of staff. These forms should be authorised by a relevant Manager and evidence of this approval should be retained. Leaver forms should also be submitted by a relevant Manager to the System Administrators.	There had been no changes in relation to this findings.	**Not implemented**
11	**Information technology - Memory sticks** The Force should remove the "Strathclyde Police" reference from the labels attached to memory sticks. This label should only detail the serial number.	The recommendation has been implemented for all new memory sticks issued. Memory sticks which are currently in issue will not be re-called, therefore the recommendation remains.	**Partially Implemented**
12	**Information technology - Audit logging** A process to review the network security log on a regular basis should be implemented. This process should involve the definition of the events to be monitored (ie failed logon attempts or changes to user access rights) and the frequency for this review. Any unusual activity on the network should be investigated and documented.	A process to review the network security log on a regular basis should be implemented. This process should involve the definition of the events to be monitored (ie failed logon attempts or changes to user access rights) and the frequency for this review. Any unusual activity on the network should be investigated and documented.	**Not implemented**

Appendix B: "The Small Print"

Purpose of report

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

The Police and Fire Reform (Scotland) Act 2012

(Supplementary, Transition, Transitory and Savings Provision Order 2013)

The Joint Police Boards were abolished as at 31 March 2013 by the Police and Fire Reform (Scotland) Act 2012. The above Order provides for the transfer of the Accounting and Reporting obligations of the Board to Glasgow City Council as the Accounting Authority.

Responsibilities of the Treasure and auditors

The Treasurer 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 Treasurer 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 Finance and Audit Scrutiny Committee of Glasgow City Council Council that it has done so.

The Finance and Audit Scrutiny Committee is required to review the Board's internal financial controls. In addition, the Finance and Audit Scrutiny 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 Finance and Audit Scrutiny 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.
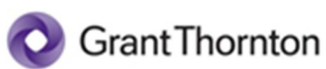
We would be pleased to discuss any further work in this regard with the Finance and Audit Scrutiny Committee.

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.

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Fees payable to Audit Scotland	72,990
Total audit fees	**72,990**

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