



**HENDERSON LOGGIE**  
Chartered Accountants

**Grampian Joint Police Board**

**Report to Members and the  
Controller of Audit**

**2009/10**

**External Audit Report No: 2010-03**

**Draft Issued: 16 August 2010**

**Final Issued: 31 August 2010**



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## **Restriction on Use**

This report has been prepared in accordance with our responsibilities under International Standards on Auditing and Audit Scotland's Code of Audit Practice for the audit of Grampian Joint Police Board's financial statements. Our audit does not necessarily disclose every weakness and for this reason the matters referred to in this report may not be the only shortcomings which exist.

We take this opportunity to remind you that:

- This report has been prepared for the sole use of Grampian Joint Police Board and their Stewardship Sub-Committee and will be shared with the Accounts Commission and Audit Scotland; and
- No responsibility is assumed by us to any other person who may choose to rely on it for his or her own purposes.



# 1. Executive Summary

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## Finance

1. Our opinion on the financial statements is unqualified. The financial statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2009 Statement of Recommended Practice (SORP), of the financial position of the Board and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.
2. The Board's Income and Expenditure Account shows a deficit for the year of £29.100 million. After adjusting for amounts required by statute and non-statutory proper accounting practices to be debited or credited to the General Fund Balance, the Board reported an increase in the General Fund Balance for the year of £566,000.
3. A further adjustment is required to take account of the payments relating to Pension Commutation Lump Sums, in order to make the final out-turn figures comparable with the budget for 2009/10. After taking this into account, the Board reported a small underspend of £42,000. During the year, the Board made savings and reduced budgets to ensure that the spending commitments arising during the year such as the accelerated rise in Police Officer numbers; the increase in retired Police Officer pension costs; increases in utility charges and the reduced savings arising from a fall in Police Staff turnover, were all accommodated within the approved level of funding.
4. The key risk for the Board in future years is achieving the budget savings set by the Scottish Government. In setting the 2010/11 Budget, the Force has had to identify budget savings of £1.312 million in order to achieve a balanced budget.
5. Looking to future years, public bodies throughout Scotland are currently engaged in a detailed review of their finances in anticipation of significant cuts in public spending from the forthcoming Spending Review. The effective delivery of public services within available funds depends on public bodies themselves and their partnership arrangements with other public and private entities. The Force has set up a "Service Reconfiguration Team" to review options for the next 3-4 years under all budget headings, and reports weekly to the Force Executive Board.

## Governance

6. The Best Value report, due for publication in late 2010/early 2011, will include comments on the governance arrangements in place.
7. The Board has opted not to introduce an Annual Governance Statement during 2009/10, however it has noted in its Statement on the Systems of Financial Control that it is a matter of interest and one that will be supported by the internal reviews and assessments that are on-going. While this has not been designated as statutory proper practice, the Board should be encouraged to include an Annual Governance Statement within its statement of accounts for 2010/11.
8. The internal audit service was provided by Deloitte and Touche LLP during 2009/10. Following a review of their files, we concluded that we could place reliance on their work and findings.
9. The Board's arrangements to prevent and detect fraud and other irregularities were found to be generally satisfactory.



## 1. Executive Summary

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10. The Local Government Investments (Scotland) Regulations 2010 were approved by the Scottish Parliament on 10 March 2010 and came into force on 1 April 2010. Authorities are required to prepare an Annual Investment Strategy before the start of the financial year and an Annual Investment Report within six months of the financial year end. The Board has yet to produce an Investment Strategy for 2010/11.

### Performance

11. From discussion with management, review of systems and procedures in place and reports produced, we have concluded that there are adequate arrangements in place to report in accordance with the requirements of the Scottish Police Performance Framework.
12. The Continuous Improvement Unit within the Force has carried out work on various topics during 2009/10 which assists the Force in delivering Value for Money through the elimination of inefficiency, unnecessary variability and inflexibility.
13. Appropriate arrangements are in place for monitoring the status and action around each significant risk within the Risk Register, through updates to each Force Executive Board meeting. Reports are also presented to the Stewardship Sub-Committee on a regular basis.
14. A report on Her Majesty's Inspectorate of Constabulary in Scotland (HMICS) self assessment process for 2009, including an action plan, was presented to the Board in March 2010, identifying three main areas for improvement. Updates on previous HMICS Thematic recommendations are also presented to each cycle of the Stewardship Sub Committee.
15. Following two pilots carried out during 2009, Grampian was selected as the first audit for the new joint audit and inspection process, referred to as Best Value 2 (BV2). The main audit and inspection work was carried out in June 2010 by a joint team involving HMICS and Audit Scotland. As external auditors we had an involvement in the process. The report is due to be published in October 2010. As the Board's external auditors, we will be required to monitor and report on the Board's progress in addressing any improvement recommendations included in the report.

### Acknowledgements

16. Our audit has brought us in contact with a wide range of staff within the Board. We would like to take this opportunity to place on record our appreciation of the co-operation and assistance extended to us by staff in the discharge of our duties.



## 2. Introduction

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### Introduction

17. We are pleased to submit our annual report, covering significant matters arising during the course of our audit of the Board for the year ended 31 March 2010. This year's report combines the issues covered in our two separate reports in previous years: **ISA260 Report to Those Charged with Governance** and **Report to Members and the Controller of Audit**.
18. The framework under which we operate under appointment by Audit Scotland is as outlined in Section 2 of our **Risk Assessment, Annual Audit Plan and Fee Proposal for 2009/10** (Annual Plan), Report 2010-01 issued on 24 February 2010. The respective responsibilities of members, officers and auditors are set out in Appendix I of this report.
19. Broadly the scope of our audit was to:
  - provide an opinion on the financial statements in accordance with relevant legal and regulatory requirements and international standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission (the Code)
  - review and report on the Board's corporate governance arrangements in relation to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct, prevention and detection of corruption, and the Board's financial position
  - review and report on the Board's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources and in securing Best Value
  - review and report on whether the Board has made adequate arrangements for collecting, recording and publishing prescribed performance information
20. Our audit approach focused on the identification of strategic risks and operational and financial risks impacting on the Board.
21. As part of our overall planning approach to the Board's annual audit we carried out a review of the key risks, national and local, facing the Board and reported how we would continue to monitor them during the year through attendance at Board and sub-committee meetings, review of minutes and discussions with officers. The main risks were reported in our Annual Plan and where appropriate we have included an update on these risks in this report. To a certain extent the content of this report comprises general information that has been provided by, or is based on discussions with, management and staff. Except to the extent necessary for the purposes of the audit, this information has not been independently verified.
22. In accordance with our Annual Plan we reviewed the Board's key internal controls and have raised some issues during the course of our audit including matters highlighted in our **Financial Statements Audit Plan**, Report 2010-02 issued on 19 May 2010.
23. We take this opportunity to remind you that external auditors do not act as a substitute for the Board's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used efficiently, economically and effectively.

### 3. Finance

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#### Financial Statements Audit

24. We are pleased to report that the target date of 31 August 2010 for the audit completion and certification of the annual accounts was met. We have given an unqualified opinion on the financial statements of the Board for the year ended 31 March 2010.
25. We set out below a summary of the audit certification issues:
- the financial statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2009 SORP, of the financial position of Grampian Joint Police Board as at 31 March 2010 and its income and expenditure for the year then ended
  - the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973
  - the Statement on the System of Internal Financial Control complies with the SORP. We were not required to consider whether the statement covers all risk and controls or form an opinion on the effectiveness of the Board's corporate governance and risk and control procedures
26. Non-compliance with statute or regulations may materially affect the financial statements. Our audit procedures include the following:
- reviewing minutes of relevant meetings
  - enquiring of senior management the position in relation to litigation, claims and assessments
  - detailed testing of transactions and balances
27. We confirm that we did not identify any instances of concern with regard to the legality of transactions or events.
28. We also request written confirmation from the Treasurer and the Deputy Director of Corporate Services that the Board's financial transactions accord with relevant legislation and regulations. They have confirmed that they are not aware of any actual or potential non-compliance with laws and regulations that could have a material effect on the ability of the Board to conduct its business and therefore on the results and financial position disclosed in the financial statements for the year ended 31 March 2010.
29. Under International Standard on Auditing (ISA) 260, we are required to communicate certain matters arising from the audit to those charged with governance. The areas considered are summarised in the following table:



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**Table 1: ISA260 Reporting**

Area	Key Messages
Nature and scope of audit	We have planned our audit in accordance with International Auditing Standards and the Code. Information on our audit appointment and details of the engagement partner and audit staff were outlined in our Annual Plan.
Integrity and objectivity of the audit engagement partner and audit staff	As external auditors, we are required to communicate on a timely basis all facts and matters that may have a bearing on our independence. We provided no consultancy or non audit services to Grampian Joint Police Board during the year and can confirm that we have complied with the Auditing Practices Board Ethical Standard 1 – Integrity, Objectivity and Independence. In our professional judgement the audit process has been independent and our objectivity has not been compromised.
Accounting policies and practices	In our opinion there are no issues that require to be brought to the Board's attention regarding the appropriateness of the accounting policies.
Material Risk and exposure	Our Financial Statements Audit Plan identified a number of material risks and exposures faced by the Board that we assessed might impact on the Board's accounts. Comment on these issues is included in paragraphs 41 to 60 within this report.  There are no other issues relating to these risk areas that require to be brought to your attention.  The Board has confirmed that it has no material risks and exposures which should be reflected in the Financial Statements and the Treasurer has confirmed this in the Letter of Representation.
Audit Adjustments	No audit adjustments were identified during the course of our audit.
Unadjusted Misstatements	There were no unadjusted misstatements (other than those which are trivial).
Material Uncertainties	There are no material uncertainties relating to events and conditions that cast significant doubt on the Board's ability to continue as a going concern.  The Balance Sheet at 31 March 2010 has an excess of liabilities over assets of £704.466 million due to the accrual of pension liabilities in accordance with Financial Reporting Standard 17 (retirement benefits). The Board has adopted a 'going concern' basis for the preparation of the financial statements as constituent authorities of the Board are required under the 1995 Grampian Combined Police Amalgamation Area Scheme Order to meet all liabilities of the Board as they fall due.  The Board has confirmed its ability to continue as a going concern in the Letter of Representation and we agree with the basis of preparation of the accounts.
Fundamental Disagreements	There are no areas of disagreement with management that, individually or in aggregate, have a significant impact on the financial statements and our audit report.
Modifications to our audit report	There are no modifications to our audit report.
Material Weaknesses	No material weaknesses in the accounting and internal control systems were identified during the audit which would adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the accounts. Some opportunities to improve internal control were reported in our Financial Statements Audit Plan.
Other matters relevant to the audit	There are two other matters which we draw to your attention. As part of our year-end testing, we identified a number of differences between the schedule of title deeds held by Aberdeenshire Council, on behalf of Grampian Police, and the Fixed Asset Register. This is discussed further in paragraph 48.

### 3. Finance

Area	Key Messages
	The other arose from the Chancellor of the Exchequer's announcement in his Emergency Budget on 22 June 2010 that the consumer price index rather than the retail price index will be the basis for future public sector pension increases. In accordance with paragraph 21 of FRS21 (Events after the balance sheet date), this change is deemed to be a non-adjusting post balance sheet event and Note 37 to the statement of accounts, 'Non Adjusting Post Balance Sheet Events' was amended to include the necessary disclosure.

#### Financial Position and Performance

30. As reported in the Income and Expenditure Account, the Board's net operating expenditure of £139.860 million exceeded the income from government grants and constituent authorities' contributions, resulting in a deficit for the year of £29.100 million. This reported deficit is carried into the Statement of Movement on the General Fund Balance and is then adjusted for items required by statute and non-statutory proper practices to be credited to the General Fund of £29.666 million. This results in an increase in the General Fund Balance of £566,000 for the year, increasing the General Fund Balance carried forward to £4.080 million as at 31 March 2010.
31. Financial performance is measured against the financial budget set by the Board in January 2009 for 2009/10. In this regard the Board reported a small underspend for the financial year of £42,000. When the budget for 2009/10 was approved, an overspend of £390,500 was anticipated due to a funding shortfall associated with Police Officer pensions. The Board, in approving the budget, required the Force to reduce the overspend during the year to absorb other spending commitments and pressures as far as possible. The base budget spend of £109.785 million set on 16 January 2009 was increased as a result of new grant funding received during the year and carry forwards from 2008/09. As a result of these adjustments, the base budget increased to £110.301 million.
32. During the year, the Force made savings and reduced budgets to ensure that the spending commitments arising during the year such as the accelerated rise in Police Officer numbers, the increase in retired Police Officer pension costs, increases in utility charges and the reduced savings arising from a fall in Police Staff turnover, were all accommodated within the approved level of funding.
33. A key risk for the Board in future years is achieving the budget savings set by the Scottish Government. In setting the 2010/11 Budget, the Force has had to identify budget savings of £1.312 million in order to achieve a balanced budget. A base budget spend of £113.345 million for 2010/11 was approved on 22 January 2010.
34. The following budget pressures were highlighted at the time of setting the 2010/11 budget in January 2010:
- The Board agreed to maintain Police Officer numbers at 1,600 in 2010/11, compared to the previously set target of 1,625 Officers by the end of 2010/11.
  - The number of Police Officers leaving the Force is significantly down in comparison to previous years. With the current economic climate, more Police Officers are staying with the Force rather than retiring or seeking employment elsewhere.
  - The Police Staff pay budget does not allow for any growth, such that potential civilianization of Police Officer posts would need to be considered in light of either savings from the Police pay budget, or a change to the complement of Police Staff through the deletion of vacant posts or the realignment of work practices.



### 3. Finance

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- The Force is currently finalising a new Pay and Grading structure and revised Terms and Conditions for Police Staff as part of its response to Equal Pay issues.
  - The Force has had to absorb a significant amount of new and emerging demands, both in terms of new crime types but also legislative burdens. It is also embarking upon a process of developing partnership arrangements and facilities for Public Protection Units, which similarly need to be funded from savings elsewhere.
  - It is expected that the Force will also be required to contend with a number of proposed strategic, economic and infrastructure developments in future years, including the development of the Trump International Golf Links, the Aberdeen Western Peripheral Route and the expansion of Aberdeen Airport. These developments are likely to impact upon the Force and result in additional costs being incurred, although as yet they have not been quantified.
35. Following the forthcoming Spending Review being undertaken across the UK, public bodies throughout Scotland are currently engaged in a detailed review of their finances in anticipation of significant cuts in public spending. The Force has set up a “Service Reconfiguration Team” to review options for the next 3-4 years under all budget headings, and reports weekly to the Force Executive Board.

#### Efficient Government

36. All public sector bodies in Scotland are involved with the Scottish Government’s Efficient Government initiative. The initiative is designed to achieve cash and time-releasing savings over a three-year period through elimination of waste, bureaucracy and duplication.
37. The Force has carried out work on various topics including the use of technology to improve productivity, joint working with partners and improving organisational and management practices. Much of this effort will result in cash and non-cash savings in future years, as well as the current year. These gains are re-invested to resource front line services and therefore delivering benefits to the community. The efficiencies have been included in the savings recently reported to the Association of Chief Police Officers in Scotland (ACPOS) and will play a significant role in supporting ACPOS to meet future efficiency savings targets.
38. The actual savings for 2009/10 against the targets set for the year show that the targets have been significantly exceeded as follows:

	2008/09 £m	2009/10 £m
Target	1.675	3.335
Actual	2.461	4.389

39. Savings have been achieved as a result of a number of initiatives including:
- Disposal of properties which were assessed as being surplus to requirements
  - Renegotiation of contracts
  - Reduction in overtime resulting from implementation of new shift patterns.
40. 2010/11 is the final year of the current Spending Review and will be the most challenging, with a target of £5.025 million savings to be achieved.

### 3. Finance

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#### Material Risks and Exposures

41. Our Financial Statements Audit Plan identified a number of material risks and exposures faced by the Board that we assessed might impact on the Board's accounts. The following paragraphs summarise these issues along with other issues we identified during the audit and how they have been resolved.

#### **Scottish Police Services Authority (SPSA) – ICT Procurement**

42. The SPSA was brought fully into operation on 1 April 2007, when it acquired full statutory powers, duties and functions. Responsibility for the Forensic Service passed from the Force to SPSA from 1 April 2007 and the ICT function transferred on 1 April 2008. Whilst the costs associated with the provision of Forensic services are borne by SPSA directly with no recharge to the Force, the funding for the purchase of ICT goods and services transferred to the Scottish Government.

43. An Agency Agreement is now in place between the Force and the SPSA to procure ICT equipment. The SPSA place orders and pay invoices for ICT goods and services on behalf of the Force. The Force reimburses the SPSA for these costs, and reclaims the monies from the Scottish Government. It is important for Forces to have sound controls in place in relation to the ordering, receipt and payment of ICT equipment to ensure that only goods ordered and received are paid for. Assurances have been received from the auditors of the SPSA regarding the costs included in the Force's financial statements, and we are satisfied that these costs have been accounted for correctly.

#### **Police Injury Benefits**

44. Injury benefits were removed from the police pension scheme regulations with effect from April 2006 and put on a separate statutory basis. When the police injury benefits formed part of the police pension scheme, **The Local Government Pension Reserve Fund (Scotland) Regulations 2003** applied to these costs, and restricted the amount chargeable to the General Fund to the payments to pensioners in the year. As the 2003 Regulations no longer apply to these costs, there is no statutory basis for them to be charged to the pension reserve instead of the General Fund. However, statutory guidance now requires an Employee Statutory Adjustment Account to be created to neutralise the impact on the General Fund, instead of using the pension reserve. In the Balance Sheet, the amount for injury benefits now requires to be presented separately from the pension benefits.
45. The Board has separately disclosed an Injury Award Liability on its Balance Sheet, with the corresponding entry in the newly created Employee Statutory Adjustment Account. This has a balance at 31 March 2010 of £35.638 million, based on information received from the Board's Actuary.

#### **Police Pension Account**

46. New funding arrangements have been introduced for Police Officers pensions from 2010/11. Key aspects of these arrangements are as follows:
- A Police Pension Account (PPA) will be set up and maintained by each Force. Payments into and out of the PPA will be determined by regulations which require to be observed as representing proper accounting practice. The PPA will record the cost of pensions each financial year, and any surplus or deficit on the PPA at the end of a financial year will be transferred to the General Fund. The PPA requires to be disclosed as a note within the accounts.
  - There will be a fixed percentage employers' contribution based on an agreed percentage of pensionable pay set as a result of actuarial advice following regular valuations of the schemes (2010/11 – 24.7%)

### 3. Finance

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- The Scottish Government will provide funding to meet the costs of the pension provision as demonstrated by the PPA.
- Amounts earmarked within the General Fund reserves, which relate to pension costs will be transferred into the PPA on 1 April 2010.
- Award payments for injury benefits and ill-health retirements will continue to be paid through the General Fund, with funding continuing through the Police element of the Local Government Settlement.

47. The Force has earmarked an amount of £2.505m within its General Fund Balance at 31 March 2010 for those officers who were eligible to retire in 2009/10 but did not. This amount will be transferred to the PPA at 1 April 2010.

#### **Title Deeds of Force Properties**

48. As part of our year-end audit testing of fixed assets, we obtained a schedule of all title deeds held by Aberdeenshire Council, on behalf of Grampian Police. From our sample testing we identified a number of differences, i.e. properties on the title deed schedule not on the Fixed Asset Register (FAR) and properties on the FAR not on the title deed schedule. The Force has undertaken a full review of the title deeds schedule and has written to Aberdeenshire Council in order to identify the reasons for the differences. From the review carried out by the Force, we are satisfied that the Balance Sheet is not materially misstated. Representation has also been obtained from the Treasurer that the FAR is an accurate account of the Board's assets at 31 March 2010. This issue has, however, still to be resolved.

#### **Recommendation 1:**

The Force should carry out a full reconciliation of all properties held on its FAR with Title Deeds held with Aberdeenshire Council (and the other constituent authorities), investigating all differences, to ensure that all records are accurate.

#### **Whole of Government Accounts (WGA)**

49. The legislative authority for WGA is contained in the *Government Resources and Accounts Act 2000*, which sets out a formal designation process. The Commencement Order for the publication of WGA has been laid before Parliament and therefore 2009/10 is the first year that a full set of WGA statements will be published. Although the Act is not applicable in Scotland, the Scottish Government has agreed to provide HM Treasury with equivalent information.

50. The UK Government's aim in respect of WGA is to develop a fully audited set of accounts covering virtually all of the UK public sector. WGA treats Government as if it were a single, consolidated entity by eliminating all significant transactions and amounts owed between public sector bodies and harmonising accounting policies. WGA is intended to present a true and fair view of Government Activities.

51. The deadline of 31 July 2010 for the submission of the consolidation packs to auditors, and the audit certification deadline of 1 October 2010 have been achieved.

#### **International Financial Reporting Standards**

52. International Financial Reporting Standards (IFRS)-based financial instrument standards were adopted in the 2007 SORP. The 2009 SORP adopts the IFRS based approach to accounting for PFI/PPP schemes from 2009/10.

53. An IFRS-based Code of Practice on Local Authority Accounting has been issued which will replace the SORP from 2010/11, when local authorities are required to fully adopt IFRS.

### 3. Finance

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54. Authorities need to restate the 2009/10 comparative information onto an IFRS basis, and disclose a restated 1 April 2009 IFRS-based Balance Sheet. The Board has completed the work for a restated opening Balance Sheet at 1 April 2009 and is in the process of restating the 2009/10 Balance Sheet. We will review the restatement work in due course and report our findings at an early stage.

#### **Appointment of new Treasurer**

55. Barry Jenkins was appointed as Treasurer to the Board in May 2010. This has been disclosed in the audited accounts.

#### **Job Evaluation**

56. As noted in Note 23 of the audited financial statements, in previous years, the Force had built up a provision to cover the potential backdated pay costs associated with the implementation of the Total Remuneration Project. The project involved the development of a new Police Staff pay and grading structure and was implemented in February 2010. The actual backdated costs were less than provision made in 2008/09, therefore the balance of the provision was written back to the Income and Expenditure Account. We are satisfied that these costs have been accounted for correctly.

#### **FRS17 Pension Costs**

57. All costs associated with FRS17 Pension Costs have been correctly accounted for and disclosed in the financial statements and associated notes.

58. The net pension liability in the Balance Sheet has increased by £228 million (48%) during 2009/10. One of the main components of the increase is the rate applied by the actuary for discounting scheme liabilities. The rate applied by the actuary is linked to corporate bond rates, which mainly relate to large financial institutions such as banks. In 2007/08 and 2008/09 banks were offering higher interest rates than normal to attract buyers of these bonds.

59. In 2009/10 some banks have withdrawn from the corporate bond market and return from these bonds are now based on large commercial organisations and rates now reflect the current economic climate. The impact in this change in the discount rate has a multiplier effect when the inflation rate is taken into account. While rates in 2008/09 had a beneficial effect on the future liabilities, for 2009/10 the decrease in the discount rate was a significant component in the £228 million movement in the net pension liability.

#### **SORP Disclosure**

60. A completed CIPFA Disclosure Checklist was received at the time the draft accounts were prepared. This confirmed that the accounts met the SORP disclosure requirements in all material respects.

## 4. Governance

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### Corporate Governance and Internal Control Arrangements

61. The Best Value report, discussed in section 5 of this report, will include some comments on Governance.
62. The Board and the Stewardship Sub-Committee met regularly during 2009/10 and both comprised members from the three constituent local authorities in Grampian. A meeting of the Stewardship Sub-Committee in March 2010 had to be adjourned due to being inquorate. Standing Orders require that at least three Members are present and that at least two constituent authorities are represented. This meeting was re-arranged for a later date.

### Annual Governance Statement

63. In June 2007, CIPFA in association with SOLACE published the revised Framework – Delivering Good Governance in Local Government. This recommends that the review of the effectiveness of the system of internal control should be reported in an Annual Governance Statement. The Board has opted not to introduce this during 2009/10, however has noted in its Statement on the Systems of Financial Control that it is a matter of interest and one that will be supported by the internal reviews and assessments that are on-going. While this has not been designated as statutory proper practice, the Board should be encouraged to include an Annual Governance Statement within its statement of accounts for 2010/11.

#### **Recommendation 2:**

Consideration should be given to producing a single Annual Governance Statement for inclusion within the 2010/11 Financial Statements.

### Internal Audit

64. The Board does not have an internal audit service in house. Deloitte and Touche LLP has provided the internal audit service for the Board for 2009/10. For 2009/10 the programme of internal audit work included five projects and a follow up review of prior year reports.
65. To minimise audit duplication we liaise with Internal Audit during our planning to identify areas of their work that we can place reliance on. For 2009/10 we agreed to place reliance on work covering the review of Accounts Payable. Following review of the file relating to this report, we concluded that we could place reliance on the work and findings of internal audit.

### Prevention and Detection of Fraud

66. As external auditors we are required to consider the arrangements made by management for the prevention and detection of fraud and irregularities.
67. At a corporate level, the Board has appropriate arrangements in place to help prevent and detect fraud and irregularity. These arrangements include, for example, an anti-fraud and corruption strategy, a whistle blowing policy and codes of conduct for elected members and staff. Overall we concluded that arrangements were generally satisfactory to prevent and detect fraud and other irregularities.
68. We are required to have arrangements in place to be notified of all frauds over £5,000 and to submit reports to Audit Scotland. No such frauds were reported during 2009/10.

## 4. Governance

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### National Fraud Initiative

69. During 2009/10 we continued to monitor the Board's participation in the National Fraud Initiative (NFI) 2008/09. The exercise is undertaken as part of the audits of the participating bodies. NFI brings together data from Councils, Police and Fire and Rescue Boards, Health Bodies and other agencies to help identify and prevent a wide range of frauds against the public sector, including occupational pension fraud and payroll fraud.
70. All of the data matches uploaded to the NFI secure website in February 2009 have been investigated and the outcomes recorded on the NFI web application. No fraud or error was identified.
71. In February 2010 we submitted an NFI return for the Board to Audit Scotland, which summarised the progress made by the Board in relation to the NFI 2008/09 exercise and assessed whether the approach adopted was in line with the NFI Handbook for Scotland issued in June 2008. Our return confirmed that there were no issues arising from our review of the Board in relation to the NFI 2008/09 exercise and concluded that overall the Board's arrangements for NFI were adequate.
72. The information on the return was used by Audit Scotland to inform the national report for the Auditor General and the Accounts Commission on the National Fraud Initiative in Scotland 2008/09 which was published in May 2010.
73. The Board is required to make adequate arrangements for the upload of the specified data for the 2010/11 NFI exercise. We have obtained assurances from the Board's nominated NFI contact that arrangements will be put in place to provide the necessary data in line with the guidance issued by Audit Scotland. We will continue to monitor the steps taken by the Board as the 2010/11 NFI work develops.

### Treasury Management

74. The Local Government Investments (Scotland) Regulations 2010 were approved by the Scottish Parliament on 10 March 2010 and came into force on 1 April 2010. The Regulations permit local authorities and boards to make investments subject to them obtaining the consent of Scottish Ministers. Finance Circular 5/2010, issued by the Scottish Government on 1 April 2010, provides the general consent of Scottish Ministers and sets out the requirements attached to the consent.
75. The consent requires authorities to invest in a way that minimises the risk to the capital sum and optimises the return on the investment consistent with those risks.
76. Authorities are required to prepare an Annual Investment Strategy (the Strategy) before the start of the financial year and an Annual Investment Report (the Report) within six months of the financial year end. The consent specifies minimum requirements for these two documents. There should also be a mid-year review.
77. Under the Local Government (Scotland) Act 1973, an authority is permitted to delegate functions to committees, with the exception of setting the council tax and borrowing money. The Investment Regulations extend these exemptions to include the approval of the Strategy and Report.
78. In the event that an authority makes an investment which is not listed as a permitted investment in their annual Investment Strategy, that investment will not be made in accordance with the Consent and as such will be *ultra vires*.

## 4. Governance

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79. The Board's has yet to produce an Investment Strategy for 2010/11. All of the Board's short term investments are currently held with the Aberdeen City Council Loans Fund.
80. Scottish Ministers recommend that the Strategy and Report are also considered by an appropriate committee / scrutiny body.

**Recommendation 3:**

An Annual Investment Strategy should be prepared and approved by the Board. Processes should then be put in place for the preparation of an Annual Investment Report and a mid-year review. This process should incorporate consideration by the Stewardship Sub Committee or another relevant scrutiny body.

## 5. Performance

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### Arrangements for Performance Management

81. In accordance with section 13 of the Local Government in Scotland Act 2003 and associated regulations and guidance from Scottish Ministers the Board must:
- publish the information specified in the schedule to the Direction for all those activities which are carried out by the body
  - ensure that publication facilitates the making of comparisons where appropriate and possible with performance in 2008/09
82. The Statutory Performance Indicators (SPIs) for audit year 2009/10 are covered by the 2008 Direction, which represents a significant shift in approach, in recognition of the changing environment in which local authorities and joint boards are operating. This includes the development of SOAs, increased self-evaluation and an agenda to reduce the overall volume of scrutiny.
83. The 2008 Direction is given by the Accounts Commission for Scotland (“the Commission”) under section 1(1)(a) of the Local Government Act 1992, which requires the Commission to direct relevant bodies (including Grampian Joint Police Board) to publish such information relating to their activities in any financial year or other specified period as will, in the Commission’s opinion:
- “facilitate the making of appropriate comparisons (by reference to the criteria of cost, economy, efficiency and effectiveness and of securing best value in accordance with section 1 of the Local Government in Scotland Act 2003) between –*
- i. the standards of performance achieved by different relevant bodies in that financial year or other period; and*
  - ii. the standards of performance achieved by such bodies in different financial years or, as the case may be, other periods”.*
84. The 2008 Direction requires each Police Board to report in accordance with the requirements of the Scottish Policing Performance Framework (SPPF). The SPPF is divided into four areas, designed to capture the breadth of policing activity. The four areas are:
- Service Response
  - Public Reassurance and Community Safety
  - Criminal Justice and Tackling Crime
  - Sound Governance and Efficiency
85. As set out under Section 99(d) of the Local Government (Scotland) Act 1973 (as inserted by Section 3(2) of the Local Government Act 1992), our duty as auditors of the Board is to be satisfied that the Board *“has made adequate arrangements for collecting and recording information, and for publishing it, as are required for the performance of their duties”.*
86. From discussion with management, review of systems and procedures in place and reports produced, we have concluded that there are adequate arrangements in place. The following paragraphs summarise the basis of arriving at this conclusion.
87. All indicators are set nationally through the SPPF. Technical Notes are produced to accompany this to ensure that indicators are calculated consistently (where possible) across each Force. Representatives from each Force attend a Performance Indicators Practitioners Group (PIPG) which co-ordinates the development and maintenance of the indicators and aims to standardise procedures across the forces, to ensure that data is comparable.



## 5. Performance

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88. Grampian has set its own baseline traffic light indicators to aid comparison and reporting of performance. Its baseline targets are the average of the previous three years, with the aspirational target being the best figure achieved in the previous three years. This provides useful information to allow the Board to assess how performance is changing.
89. The Force has produced a “Quarterly Reporting: A Practical Guide” which defines, describes and provides guidance for the Quarterly Reporting process. Business Areas are required to collate and submit only one report each quarter, which helps minimise any duplication or inconsistencies in statistical reporting required at a national level. The Business Area Quarterly Reports are then used for the following:
- Internal Business Area Management
  - Regular review by the Force Executive
  - Quarterly Reporting to the Force Executive Board and the Joint Police Board, collating national and local indicators and summarising performance against Force Priorities. The Annual Report is also incorporated into this process, which provides a public statement to the Joint Police Board on Annual Force performance
  - Scottish Government statistical returns (SPPF Quarterly returns)
  - ACPOS Quarterly Performance Reports
  - Where possible, statistics will also align to HMICS Annual Statistical Return.
90. The Force has also produced “Public Performance Reporting (PPR): A Practical Guide”, which is a source of reference on the background and statutory responsibilities placed on Grampian Police. The guide outlines how the PPR process is dovetailed with the Quarterly Reporting process, and provides practical advice to Business Areas on the aims and methods used to collate information and what it is required for.
91. All Quarterly Reports and the Annual Report, both at Business Area level and for the Force as a whole, are available through the Force’s website. The Force-wide reports are also presented in the public session of the Joint Police Board meetings. These reports present the current years data along with previous years, and make narrative comments where comparisons can be made nationally.
92. The indicators for 2009/10 have been published on the Force website by the statutory deadline of 30 September 2010 and within the Force’s Annual Report for 2009/10.

### Arrangements for Achieving Continuous Improvement

93. The Continuous Improvement Unit (CIU) aims to assist all parts of the Force make improvements in the way they do business by reviewing systems and processes, technology and facilities to maximise effective service provision. By demonstrating continuous improvement through the elimination of inefficiency, unnecessary variability and inflexibility, the CIU assists the Force in delivering value for money.
94. Prioritisation of work is aligned with Force priorities, national priorities and any current HMICS inspections. Reviews during 2009/10 have included:
- Aberdeen Division Custody – work was undertaken to identify how the current custody process could be improved. Sixteen recommendations were made regarding areas for potential improvement and an action plan was developed to monitor progress against implementation of these recommendations.
  - Corporate Communications – work was undertaken to identify any potential areas for improvement which, when implemented, would ensure the Department meets current and

## 5. Performance

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future demand. Twenty two recommendations were made regarding areas for improvement.

- Analyst Review – this review examined current practices in line with the National good practice and made recommendations for improvement where appropriate.
- Road Safety Unit – a review of Grampian Police Road Safety Unit, Road Policing, Operational Policing and Support Business Area has been completed.
- Court Officers in Aberdeenshire – the aim of this review was to establish if the Court Officer role must be performed by a police officer and to identify areas of wasteful practices, delays, duplication of effort and unnecessary bureaucracy within the current Court Officer's process and make recommendations regarding possible streamlining of these processes.

### Risk Management

95. The Full Risk Register was presented to the Stewardship Sub-Committee in June 2010, and was collated from risks identified within the 2010/11 Force Business Plans. All risks documented within Business Plans are included in this register.
96. Emerging issues are also reported as part of the risk register to highlight any potential risks the Force may encounter in the future. These take into account political, economic, social, technological, environmental, legal and organisation considerations. They can also be focussed at a local, national or global level.
97. Appropriate arrangements are in place for monitoring the status and action around each significant risk, through updates to each Force Executive Board meeting. Reports are also presented to the Stewardship Sub-Committee on a regular basis.

### HM Inspectorate of Constabulary for Scotland (HMICS)

98. Following a review of their inspection process, HMICS have now moved away from the five-year cycle of 'whole force' inspections to a lighter touch, risk-based scrutiny process.
99. During 2008, the Force, along with the other seven Scottish Forces, completed a self assessment exercise using the European Foundation for Quality Management (EFQM) model. The intention was the Forces would be the primary users of the self-assessment outputs, and that HMICS would use the results to identify where further, more detailed, inspection work might be required.

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100. HMICS reviewed the improvement action plans arising from Forces' self-assessments and examined how some of the evidence and related judgements were used in the process itself. From this, it identified some specific areas for further examination, particularly around how Forces manage the most serious risks to society identified through the Scottish Strategic Assessment. Following a high level review in 2009 of how each Force was managing the very high priority risk areas identified by the 2007/08 Scottish Strategic Assessment, a report entitled "**An examination of how Grampian Police manages the very high priorities of the Scottish Strategic Assessment**" was published in December 2009. Of the eleven recommendations made in the report, the Force accepts six of these, acknowledges a further four, however, does not accept recommendation number two. The reason for non-acceptance is the Force's belief that the inspection did not take into account its wider planning processes. Work is ongoing to address the six accepted recommendations.
101. A more streamlined, and less bureaucratic self assessment process was undertaken in 2009, focused at a Force level compared to individual Business Areas in 2008. The 2009 process focussed on seven business criterion: Leadership; Policy and Strategy; People Management; Partnership and Resources; Processes; People Results and Achieving outcomes. A report and action plan was presented to the Board in March 2010 for approval, and identified three main areas for improvements:
- Alignment of Finance/ Business Area budgets with strategic priorities and the areas upon which they have to deliver
  - Identification and delivery of training to existing staff in line with strategic priorities
  - Improved succession planning.
102. Updates on previous HMICS Thematic recommendations, including the following published during 2009/10, are presented to each cycle of the Stewardship Sub-Committee:
- Assessing and managing offenders who present a high risk of serious harm
  - Joint report on the Proceeds of Crime Act 2002
  - Attendance Management

### Best Value 2 (BV2)

103. The Accounts Commission and HMICS are now taking a joint approach in carrying out and reporting police best value audit and inspections, referred to as Best Value 2 (BV2).
104. Audit Scotland and HMICS work together to undertake joint risk assessments and assess the performance of the police authority and police force, to seek to achieve shared judgements on the extent to which characteristics of a best value police authority and police force are met and report publicly on the results.
105. Following two pilots carried out during 2009, Grampian was selected as the first audit for the new joint audit and inspection process. The main audit and inspection work was carried out in June 2010 by a joint team involving HMICS and Audit Scotland. As external auditors we had an involvement in the process. The report is due to be published in late 2010/early 2011.
106. As the Board's external auditors, we will be required to monitor the Board's progress in addressing any improvement recommendations included in the report.

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### National Performance Audit Reports issued by Audit Scotland

#### **Drug and Alcohol Services in Scotland**

107. The national report was published in March 2009. It includes a self-assessment checklist, aimed at helping local partners improve the delivery and impact of drug and alcohol services through a joined-up, consistent approach.
108. Grampian Police's 2010/11 strategic priorities highlight a commitment to reduce the harm caused by serious organized crime and in particular controlled drugs. It continues to work closely with its partners to reduce drug and alcohol related crime and focus on harm reduction and also to improve road safety through a blend of education and enforcement.

#### **Improving Public Sector Purchasing**

109. The national report Improving Public Sector Purchasing was published in July 2009. The report found that the public sector in Scotland is improving its purchasing and has estimated it has saved a total of £327 million in the first two years of the Programme, which has cost £61 million so far to implement.
110. The current economic climate means that more than ever, the public sector needs to find cash savings. With the public sector's size and combined purchasing power, there is still potential for it to buy goods and services more efficiently and deliver more significant savings through increased collaboration and better management. There has been progress in recent years but it has varied across the country and been slower than planned.
111. The report recommends that the public sector should increase the use of collaborative contracts. These are a key feature of the Programme, but are being developed more slowly than expected. Other high level recommendations were made which highlight the good purchasing practice that public bodies should adopt to demonstrate Best Value.
112. Grampian Police currently work collaboratively on a number of different fronts as follows:

- On a national level it participates in various Category A contracts with Office Supplies, IT Software Oracle Licensing and Electricity and will be joining the Category A Gas contract from April 2010. The Force also utilise various Buying Solution Contracts for Office Equipment in Multifunctional devices and some consultants. It also is currently looking at utilising Buying Solution Contracts for the Safety review of the Force IT Systems.
- The Board are also working across the Police Service in Scotland in collaborative contracts, and are taking the lead on a national Contract for Production and Prisoners property bags. It also leads on the drawing up of a Memorandum of Understanding between all Forces which allow the eight Forces to work together on procurement issues.
- On a local basis, the Board participate in the Chief Executive Forum where all local public sector organisations meet to find synergy in requirements to obtain better procurement.

#### **Improving Civil Contingencies Planning**

113. The national report was issued in August 2009. The study looked at progress made since the Civil Contingencies Act 2004 was passed, assessing the pace of change and identifying ways in which improvements can be made. The report made 16 detailed recommendations where further improvements can be made.

## 5. Performance

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114. On receipt, the national report was circulated to all members of the Grampian Strategic Co-ordinating Group (SCG) of which Grampian Police is a member. The Grampian Resilience Advisor had also carried out a review and identified many of the same issues as the national report, as noted in his paper “Enhancing Resilience in Grampian”, which was also presented to the SCG in August 2009. The key issues for the SCG are addressed by the Grampian SCG Business Plan for 2010/11, together with the restructuring measures, which were approved in March 2010.
115. SGC training and exercising programmes are contained in the Business Plan for 2010/11.
- Scottish Police Services Authority (SPSA)**
116. Audit Scotland is currently carrying out a review of SPSA and their report is due for publication in October 2010. The review is intended to provide an independent assessment of what SPSA has achieved to date and the factors affecting its performance. In addition, the report will identify lessons from SPSA’s experience that may benefit future service centralisations or shared services.
117. Executives of SPSA have met with the Board during the year to discuss their proposals for effective delivery of the services they are responsible for in support of the Force.



## 6. Action Plan

Observation and Risk	Recommendation	Management Response	
<p>1. From our testing of fixed assets we identified a number of differences between the schedule of title deeds held by Aberdeenshire Council, on behalf of Grampian Police, and those properties held on the Fixed Asset Register.</p>	<p><b>R1.</b> The Force should carry out a full reconciliation of all property held on its FAR with Title Deeds held with Aberdeenshire Council (and the other constituent authorities), investigating all differences, to ensure that all records are accurate.</p>	<p>Discussions are on-going with Aberdeenshire Council to resolve the matter, however, it will be necessary for the Council to consider this as a priority. It is envisaged that there will be no amendment to the fixed asset register.</p> <p><b>To be actioned by:</b> Head of Logistics</p> <p><b>No later than:</b> 31 December 2010</p>	
<p>2. In 2009/10, the Board has continued to publish a Statement on the Systems of Internal Financial Control.</p>	<p><b>R2.</b> Consideration should be given to producing a single Annual Governance Statement for inclusion within the 2010/11 Financial Statements.</p>	<b>Grade</b>	<b>B</b>
		<p>This recommendation will be considered by the Force.</p> <p><b>To be actioned by:</b> Chief Superintendent – Development and Governance</p> <p><b>No later than:</b> 31 March 2011</p>	<b>B</b>
<b>Grade</b>			



## 6. Action Plan

Observation and Risk	Recommendation	Management Response	
<p>3. The Board has yet to produce an Investment Strategy for 2010/11, as required under The Local Government Investments (Scotland) Regulations 2010.</p>	<p><b>R3.</b> An Annual Investment Strategy should be prepared and approved by the Board. Processes should then be put in place for the preparation of an Annual Investment Report and a mid-year review. This process should incorporate consideration by the Stewardship Sub Committee or another relevant scrutiny body.</p>	<p>A paper will be prepared for the next meeting of the Stewardship Sub-Committee.</p> <p><b>To be actioned by:</b> Senior Financial Accountant</p> <p><b>No later than:</b> 31 October 2010</p>	
		<p><b>Grade</b></p>	<p><b>B</b></p>

To aid the use of the action plan, our recommendations have been graded to denote the level of importance that should be given to each one. These gradings are as follows:

- A Fundamental issues that require immediate consideration of senior management
- B Significant issues that required the attention of line management.
- C Less significant matters that do not require urgent attention but which should be followed up within a reasonable timescale.



## Appendix I

### Respective Responsibilities

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#### **Respective Responsibilities of Members, Officers and Auditors**

Each public sector body is accountable for the way in which it has discharged its stewardship of public funds. Stewardship is a function of both executive and non-executive management and, therefore, responsibility for effective stewardship rests upon both members and officers of a public sector body.

That responsibility is discharged primarily by the establishment of sound arrangements and systems for the planning, appraisal, authorisation and control over the use of resources and by the preparation, maintenance and reporting of accurate and informative accounts.

It is our responsibility to undertake an independent appraisal of the discharge by management of its stewardship responsibilities, to enable us to give an assurance that those responsibilities have been reasonably discharged.

The Board and the Treasurer's responsibilities for the Statement of Accounts are set out on page 12 of the annual statement of accounts. Our responsibility is to form an independent opinion, based on our audit, on the abstract of accounts and to report that opinion to you.

We are required to review whether the Board's Statement on the System of Internal Financial Control reflects the Board's compliance with the SORP, and we report if, in our opinion, it does not. We are not required to consider whether the statement covers all risk and controls, or form an opinion on the effectiveness of the Board's corporate governance procedures or its risk and control procedures.



## Appendix II – Acronyms

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ACPOS	Association of Chief Police Officers in Scotland
BV2	Best Value 2
CIPFA	Chartered Institute of Public Finance and Accounting
CIU	Continuous Improvement Unit
EFQM	European Foundation for Quality Management
FAR	Fixed Asset Register
FRS	Financial Reporting Standards
HMICS	Her Majesty's Inspectorate of Constabulary for Scotland
ICT	Information and Communication Technologies
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
LLP	Limited Liability Partnership
NFI	National Fraud Initiative
PFI/ PPP	Private Finance Initiative/ Public Private Partnership
PIPG	Performance Indicators Practitioners Group
PPA	Police Pension Account
PPR	Public Performance Reporting
SCG	Strategic Coordinating Group
SOA	Single Outcome Agreement
SOLACE	Society of Local Authority Chief Executives
SORP	Statement of Recommended Practice
SPI	Statutory Performance Indicators
SPPF	Scottish Police Performance Framework
SPSA	Scottish Police Services Authority
WGA	Whole of Government Accounts