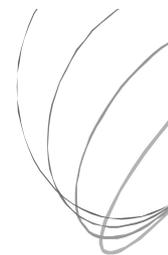


Tayside Joint Police Board

Report to Members on the 2005/06 Audit

October 2006





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Key Messages

In 2005/06 we have audited the financial statements and looked at aspects of performance and governance within Tayside Joint Police Board. This report sets out our main findings.

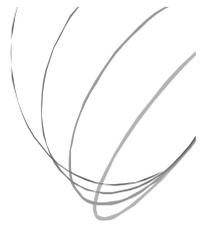
Overall, we found the financial stewardship of Tayside Joint Police Board during the year to be satisfactory. The main conclusions and outcomes from the audit are highlighted below:

- An unqualified audit opinion has been issued on the financial statements for 2005/06
- The Statement on the System of Internal Financial Control included in the accounts complies with accounting requirements and is consistent with audit findings
- Final accounts preparation procedures and working papers were generally good and this enabled the audit to progress satisfactorily
- The Board has a robust Local Code of Corporate Governance and many aspects of a sound corporate governance framework are in place. Work needs to continue, however, to fully embed risk management into strategic and operational planning activities
- Internal Audit concluded that *'reasonable assurance can be placed upon the adequacy & effectiveness of the Board's internal financial control system in the year to 31 March 2006'* and our own work concluded that high level controls exist and operate in a number of key systems
- All of the issues raised by HMIC in their primary inspection of the Force in 2002 have now been discharged
- Ten of the eleven Statutory Performance Indicators (SPIs) were identified as reliable. However, performance during 2005/06 as measured by SPIs has been variable

Key issues for the Board in the future include:

- the increasing cost of pensions;
- financial reporting changes introduced by the 2006 SORP;
- the need to continue developments in relation to governance arrangements, including improved medium to long term financial planning and the development of a robust asset management planning process;
- the need to meet national targets for the reduction in serious violent crimes and to improve the clear up rate for serious violent crimes and housebreaking.

Detailed action plans covering the issues raised during the audit have been discussed with management during the year. Key issues for the attention of members are outlined in the Action Plan included in this report.



This is the final year of our current appointment to the audit of the Board. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the Board over the five years of our audit appointment.

**Audit Scotland
October 2006**

Introduction

1. The members and officers of the Board are responsible for the management and governance of the organisation. As external auditors, we review and report on the arrangements in place and seek to gain assurance that:
 - the financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed;
 - the Board's system of recording and processing transactions provides an adequate basis for the preparation of the financial statements and the effective management of assets and interests;
 - the Board has adequate corporate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability;
 - the systems of internal control provide an appropriate means of preventing or detecting material mis-statement, error, fraud or corruption;
 - the Board has proper arrangements for securing best value in its use of resources; and
 - arrangements have been made to collect, record and publish statutory performance information.
2. This report summarises the most significant issues arising from our work during 2005/06. More detailed reports to management, including agreed action plans, have also been submitted to officers throughout the year.

Financial statements & financial position

3. In this section we summarise key outcomes from our audit of the Board's financial statements for 2005/06, aspects of the Board's reported financial position and performance to 31 March 2006, and provide an outlook on future financial prospects and financial reporting issues.

Auditor's report

4. We have given an unqualified opinion on the financial statements of Tayside Joint Police Board for 2005/06, concluding that:
 - the financial statements present fairly the Board's financial position at 31 March 2006 and income and expenditure during the year;
 - the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973.
5. The Board's balance sheet has an excess of liabilities over assets of £470.406 million due to the accrual of pension liabilities in accordance with accounting standards. Auditing standards require auditors to consider an organisation's ability to continue as a going concern when forming an opinion on financial statements. One of the indications that may give rise to going concern considerations is an excess of liabilities over assets.
6. The Accounting Policies outline the Treasurer's view that it has been considered appropriate to adopt a going concern basis for the preparation of the financial statements as constituent authorities of the Board are required under the 1995 Tayside Combined Police Area Amalgamation Scheme Order to meet all liabilities of the Board as they fall due. Future pension liabilities will be met, as they fall due, by government grant and contributions from constituent authorities in the normal way. We are satisfied that the process the Board has undertaken to consider going concern is reasonable.

Financial position

7. The Board's net revenue expenditure amounted to £77.218 million and was met by government grants and constituent authorities' contributions of £78.304 million, resulting in a surplus for the year of £1.086 million. In his Foreword the Treasurer summarises performance against budget. The major factor contributing to the total under spend against budget was the exceptional circumstances of policing the G8 Summit and additional grant income from the Scottish Executive which was received late in the financial year.

8. The Board holds a general fund reserve which consists of both earmarked amounts set aside to support future years' expenditure and a contingency for unexpected events or emergencies. The Controller of Audit's 'Overview of the local authority audits 2004' recognises that the appropriate level of balances is for local authorities to determine, taking account of local circumstances, but stresses the need for clear strategies for managing such funds which set out their purpose and intended use. In the absence of clear strategies, there are risks that funds are accumulated unnecessarily or that pressure to restrict rises in constituent authority contribution levels results in an inadequate cushion held to deal with emergencies.
9. At 31 March 2006 the Board held a reserve of £5.692 million. £3.311 million has been earmarked to fund the future cost of police pension entitlements accruing to those officers eligible to retire at 31 March 2006 but who have elected to remain in service.
10. The Board has a policy to retain reserves at a level of 1% of the Board's grant aided expenditure (GAE), to meet any unforeseen demands. The remaining reserve balance of £2.381 million as at 31 March 2006 exceeds the 1% GAE level by £1.589 million. The Board has approved proposals to utilise the remaining balance over the next two years to enhance operational efficiency and officer safety and improve the Force's estate.
11. Capital expenditure totalled £3.021 million, against a budget of £2.887 million, and was funded by government grant of £3.011 million and revenue funding of £0.010 million. Capital grant from the Scottish Executive of £0.223 million has been carried forward to 2006/07. This sum is £0.093 million in excess of the 5% carry forward limit set by the Executive and Minister's consent has been received to carry forward this excess to 2006/07.

Issues arising

12. The Board's unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Final accounts preparation procedures and working papers were good and this enabled the audit to progress smoothly.
13. Audited accounts were finalised prior to the target date of 30 September 2006 and are now available for presentation to the Board and for publication. The financial statements are an essential means by which the Board accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.
14. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom —A Statement of Recommended Practice (the 'SORP'). Some minor adjustments were made to the figures included in the unaudited accounts made available for public inspection. None of the adjustments made had an impact on the surplus achieved in the year.

Legality

15. Each year we request written confirmation from the Treasurer that the Board's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes and checklists. The Interim Treasurer has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of the Chief Constable and the Senior Management Team, the financial transactions of the Board were in accordance with the relevant legislation and regulations governing its activities.
16. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Statement on the system of internal financial control

17. The 2005/06 financial statements include a Statement on the System of Internal Financial Control which highlights the Interim Treasurer's view that the Board has in place sound systems of internal financial control, with no material weaknesses identified, and that mechanisms are in place which would identify and address any material areas of weakness on a timeous basis. The statement complies with accounting requirements and is consistent with the findings of our audit.

Future outlook

Pension liabilities

18. Accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. In addition, the government is currently considering major changes to public sector pension schemes, with one of the aims being to provide an affordable, secure and sustainable benefit structure.
19. Financial Reporting Standard 17 (Retirement Benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This requirement results in very large future liabilities being recognised in the annual accounts.
20. The police officers' pension scheme is unfunded and, therefore, has no assets to be valued. Note 11 to the Balance Sheet highlights that the present value of scheme liabilities at 31 March 2006 is £489.468 million. As the scheme is unfunded, the pension liability will fall to be met by serving police officers' contributions and by government grant and constituent authorities' contributions.

21. The Board's estimated pension liabilities for support staff at 31 March 2006 exceeded its share of assets in the Tayside Superannuation Fund by £8.991 million. The full actuarial valuation of the Tayside Superannuation Fund at 31 March 2005 recommended that the overall net liability be recouped through increased employers' contributions. The Board's contributions will increase from 275% of employees' contributions in 2005/06 to 315% in 2008/09.

Financial reporting

22. A number of changes have been made to the 2006 SORP which will have a significant impact on the presentation of the 2006/07 annual financial statements to make them more consistent with the accounts of other public and private sector entities. The Board should take this opportunity to review the presentation of its budget and summary financial results to members and the wider public to ensure that financial planning and activity is fully transparent. The changes include:

- replacement of the revenue account with a traditional income and expenditure account;
- a new statement that reconciles the income and expenditure account surplus or deficit for the year to the general fund surplus or deficit; and
- replacement of the statement of total movement in reserves with a statement of total recognised gains and losses.

Action point 1

Governance

23. In this section we comment on key aspects of the Board's governance arrangements during 2005/06 and provide an outlook on future governance issues.

Overview

24. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. Last year we reported that although the Board had adopted satisfactory corporate governance arrangements, further improvement was still required in a number of areas.
25. Progress has been made in these areas over the past year, including the drafting of a risk register. There are, however, some issues which still require to be taken forward including:
- the completion of the Board's risk register and the formalisation of an over-arching risk management strategy, followed by the embedding of risk management in strategic and operational planning activity;
 - updating the Financial Regulations and the Anti-fraud strategies to reflect current best practice;
 - ensuring that the Board's Committee and Sub-Committee agendas and minutes are timeously updated on the Board's internet site; and
 - considering the apportionment of the Board's costs between constituent authorities as this calculation has not been reviewed since 1996.
26. Internal audit plays a key role in the Board's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. The Board's internal audit service is provided by Angus Council under a service level agreement. With the agreement of the Board, Angus Council has sub-contracted Henderson Loggie, Chartered Accountants, to undertake some of the internal audit work for the period from 2003-2006. Full control and management of the internal audit service is provided by the Chief Internal Auditor of Angus Council.
27. Each year we undertake an overview of internal audit arrangements which includes an assessment of whether or not we can place reliance on internal audit work in order to reduce our own input. We are pleased to conclude that internal audit work within the Board continues to be of a sufficient standard to allow us to rely on it.

Anti-fraud and corruption arrangements

28. The Board has an approved Anti-Fraud and Corruption Strategy and Fraud Response Plan which contribute to sound arrangements to prevent and detect fraud and corruption. As noted above, however, the Anti-fraud strategy requires to be updated and disseminated throughout the organisation.

Systems of internal control

29. Reliance was placed on the work of internal audit in 2005/06 to evaluate a number of key systems in place within the Board. The Chief Internal Auditor concluded that *'reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal control system in the year to 31 March 2006'*.
30. Our 2005/06 audit also included follow-up of progress made in implementing previous audit recommendations. We found that the Board is still in the process of actioning two significant areas highlighted in the 2004/05 Report to Members:
- the need to improve medium to longer-term financial planning;
 - the need to develop a comprehensive corporate asset management plan to inform and drive capital planning decisions. Asset management planning should provide real integration between asset management and financial planning and contribute to debates on affordability and long term objective setting.
31. As part of our work to provide an opinion on the financial statements we assessed the extent to which we could gain assurance on a number of the Board's main financial systems. Our overall conclusion was that high level controls exist and operate effectively in a number of key systems. The Board operates using some of the corporate financial systems of Dundee City Council under a service level agreement. We have also been able to take assurance from our work as the Council's auditor on these systems.

Future outlook

32. In the coming years the Board faces challenges to improve its governance arrangements, including:
- continuing the development of risk management throughout the organisation;
 - the further development of medium to longer-term financial planning to ensure the sustainability of spending decisions; and

- the continuing development of a robust asset management planning process to ensure best value in the use of the Board's assets and that spending plans are affordable, prudent and sustainable.

Action point 2

33. The Board has been participating in the National Fraud Initiative (NFI) which aims to identify and reduce fraud by bringing together data from local authorities and other public agencies to help detect a wide range of frauds against the public sector. The initiative also enables bodies to detect overpayments made in error or through honest misunderstandings. Audit Scotland is working with the Audit Commission to widen the scope of the NFI during 2006/07. Public bodies will provide information again in October this year and will have fresh information to investigate in early 2007. The Board needs to ensure that it continues the commitment already shown and uses the opportunities presented by the NFI on an ongoing basis to assist in the detection of fraud.

Performance

34. In this section we summarise key aspects of the Board's reported performance and provide an outlook on future performance.

Her Majesty's Inspectorate of Constabulary for Scotland

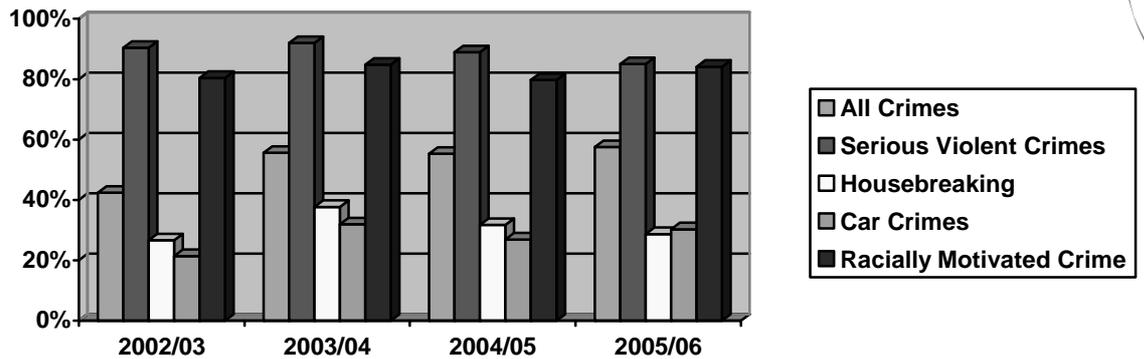
35. Audit Scotland work closely with HMIC and other scrutiny bodies to minimise the burden of audit and inspection on public bodies and to optimise the use of resources available for such work. HMIC undertook a primary inspection of Tayside Police in 2002 and reported on progress in implementing the recommendations arising from that inspection in July 2004. A subsequent report issued in June 2006 covered those areas that were not discharged in the 2004 review.
36. Overall, the Force has made significant progress in addressing the issues raised during the primary inspection. Of the sixteen recommendations contained in the primary inspection report, all have been fully discharged although HMIC is interested to examine developments on the wider aspects of the Force's financial strategy at the next primary inspection.
37. In addition, a number of areas considered worthy of review have been revisited by HMIC and only one area in relation to the Best Value Review on Staff Development will require further activity prior to HMIC concluding its interest.

Statutory performance indicators

38. The Board has a statutory duty to collect, record and publish specified performance indicators and, so far as is practicable, ensure they are accurate and complete. The Accounts Commission issue a Direction each year detailing the statutory performance indicators (SPIs) that require to be published and external auditors review the Board's arrangements and return details of the indicators, including an opinion on their reliability, to Audit Scotland headquarters to enable compilation of national reports on performance.
39. Our assessment of the Board's eleven statutory performance indicators highlighted one indicator that was unreliable due to a mis-interpretation of the data required. It is our understanding that this indicator, on the number of Police Reports sent to the Procurator Fiscal within 28 days, will be corrected in 2006/07.

Percentage of crimes cleared up

40. SPIs show that the overall percentage of crimes cleared up has increased, although the detection rate for serious violent crime and housebreaking is falling.



41. A national target has been set to reduce the incidence of serious violent crime by 5%. This has not been achieved by the Board, with an increase in incidence from an average of 640 serious violent crimes to 682 in 2005/06. There has also been a reduction in the clear up rate of 1.7% against a national target of an increase of 2% in the clear up rates.
42. The Board has substantially exceeded the national targets of 5% and 15% for the reduction in the number of incidents of housebreaking (35%) and car crime (47%) in the corresponding timescale. The detection rate for housebreaking, however, has fallen.
43. A national target was set for the increase in the detection rate for racially aggravated crime by 5% by 2005/06, using figures from 2000 to 2003 as a baseline. The Board has increased its detection rate by 7.2%, exceeding the target set.
44. The number of offences for supply and possession with intent to supply class A drugs has increased to 255, a 55% increase on the average number between 2000 and 2003. This compares to a national target to increase the number of detected offences by 10%.

Number of people killed or injured as a result of road accidents

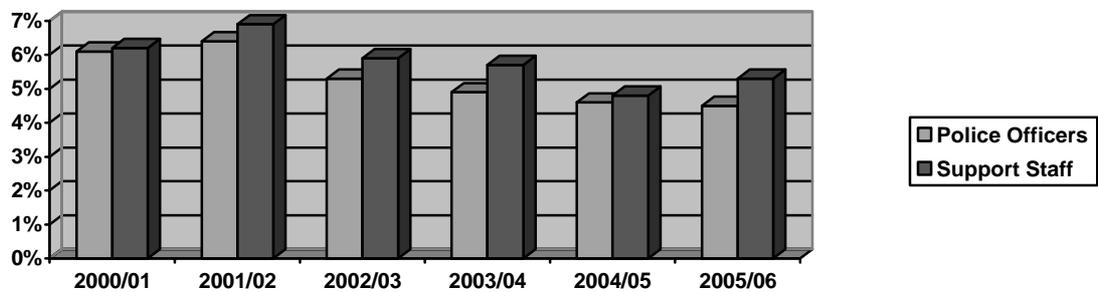
45. National targets were set for a reduction in those killed or injured as a result of road accidents by 2005/06, using figures from 1994 to 1998 as a baseline. The Board has met and exceeded the targets set with:
 - a 41% reduction in the number of people killed or seriously injured (target 33%);
 - a 47% reduction in the number of children killed or seriously injured (target 40%); and
 - a 18% reduction in slight injuries (target 10%).

Proportion of 999 calls answered within ten seconds

46. In 2004/05 the Board was able to answer 88.9% of all 999 calls within 10 seconds, a figure that was in line with the 2004/05 Scottish average of 88.8%. In 2005/06 performance has improved slightly, with the Force answering 90.6% of all 999 calls within 10 seconds.

Proportion of working time lost due to sickness absence

47. In previous years we have highlighted the improved levels of sickness absence for both police officers and support staff. The level of absence for police officers continues to fall and stands at 4.5% compared with the 2004/05 national average of 4.4%. The sickness absence levels of support officers has increased to 5.3% which is broadly in line with the 2004/05 national average of 5.2%:

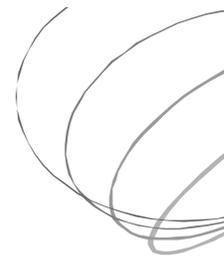


Police reports sent to the Children's Reporter

48. A national target of 10 working days after caution/charge has been set for the time taken to submit police reports to the Children's Reporter. In line with last year, 84% (2004/05 national average 76%) of reports were sent to the Children's Reporter within 10 working days.

Future outlook

49. The Board's performance during 2005/06 as measured by SPIs has been variable, with some national targets exceeded, some not met and some areas of improvement since 2004/05. Particular areas for continuing attention in the coming years are the need to meet national targets for the reduction in serious violent crimes and to improve the clear up rate for serious violent crimes and housebreaking.
50. A national performance audit study on police call management is currently underway, with the report scheduled for publication in mid-2007. The Board should take the opportunity to review their own arrangements in the light of any recommendations, or best practice, highlighted by the study.



Risk summary and action plan

No.	Issue & risk	Responsible officer	Response & agreed action	Action date
1.	<p>Financial reporting</p> <p>Changes have been made to the 2006 SORP which will have a significant impact on the presentation of the 2006/07 financial statements to make them more consistent with the accounts of other public and private sector entities. The Board should take this opportunity to review the presentation of its budget and summary financial results to members and the wider public to ensure that financial planning and activity is fully transparent.</p> <p><i>Risk: in the event of insufficient preparation, the 2006/07 financial statements may not comply with accounting requirements. Differences between financial reporting requirements and budget monitoring during the year may result in a lack of transparency for members and the public.</i></p>	Treasurer and Head of Finance	The financial reporting changes associated with the 2006 SORP have been recognised and arrangements are in hand to review procedures and the presentation of the financial statements accordingly.	June 2007
2.	<p>Governance</p> <p>The Board requires to continue ongoing developments to improve governance arrangements, including the development of risk management throughout the organisation, the development of medium to longer term financial management and robust asset management processes.</p> <p><i>Risk: the Board may fail to identify and manage significant risks to its objectives. The Board may be unable to demonstrate the sustainability of spending decisions or a robust, affordable and sustainable approach to capital planning in the longer-term.</i></p>	Treasurer and Director of Corporate Services	The Board has demonstrated sound corporate governance arrangements exist and also recognises the need to build upon these to assist in achieving its objectives. Monitoring and review of risk is now incorporated into the Force's management of business continuity, with oversight applied by the Force Executive. The Board is to adopt a longer term financial strategy and any longer term financial pressures will be highlighted at the time the unaudited accounts are presented to the Board and fed into the following 3 year budget exercise. Asset management procedures are being reviewed and will be incorporated into the Estates Strategy.	June 2007