

Lothian and Borders Police Board

Report to those charged with governance on the 2008/09 audit



 AUDIT SCOTLAND

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Key Issues

Introduction

1. International Standard on Auditing 260 (ISA 260) requires auditors to communicate matters relating to the audit of the financial statements to those charged with governance of a body in time to enable appropriate action.
2. ISA 260 requires us to highlight:
 - relationships that may bear on our independence and the integrity and objectivity of the audit engagement lead and audit staff
 - the overall scope and approach to the audit, including any expected limitations, and the form of reports expected to be made
 - expected modifications to the audit report
 - management representations requested by us
 - unadjusted misstatements
 - material weaknesses in internal control identified during the audit
 - views about the qualitative aspects of accounting practices and financial reporting, including accounting policies
 - matters specifically required by other auditing standards to be communicated and any other matters that are relevant to the audit.
3. This report sets out for the Board's consideration the relevant matters arising from the audit of Lothian and Borders Police Board's financial statements for 2008/09 that require reporting under ISA 260. The contents should be brought to the attention of the Treasurer, Chief Constable, Director of Resources and Chair of the Police Board so that they can consider them before they sign the relevant pages of the financial statements. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. The report has been prepared for the use of Lothian and Borders Police Board and no responsibility to any third party is accepted.



Status of the audit

4. Our work on the financial statements is now complete.

Matters to be reported to those charged with governance

Conduct and scope of the audit

5. Information on the integrity and objectivity of the audit engagement lead and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan submitted to management in February 2009 and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in March 2007.

Audit opinion & representations

6. Our anticipated auditor's report (appendix A) is unqualified.
7. The accounts have been adjusted to correct the majority of the identified financial misstatements with the exception of three errors. If adjustment were made, these would have no impact on the income and expenditure account but would increase net liabilities in the balance sheet by £1 million. These errors, while more than clearly trivial, are immaterial to the accounts as a whole. Officers in Finance propose not to adjust the accounts for these errors and we concur on this. (Appendix B).
8. As part of the completion of our audit we seek written assurances from the Chief Financial Officer on aspects of the accounts and judgements and estimates made. A draft letter of representation under ISA 580 has been provided to the Treasurer. A response was received on 30 September 2009.

Accounting and internal control systems

9. No material weaknesses in the accounting and internal control systems were identified during the audit which could 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.

Matters arising

10. In our view, the following issues require to be brought to your attention regarding the appropriateness of the Board's accounting policies or accounting estimates and judgements, the timing of transactions, the existence of any material unusual transactions or the potential effect on the financial statements of any uncertainties:



11. **Going concern:** The Board's Balance Sheet at 31 March 2009 has an excess of liabilities over assets of £1,061.3 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 future liabilities will be met, as they fall due, by government grant and contributions from constituent authorities under the Combined Police Area Amalgamation Scheme 1995. We have asked the Treasurer for formal assurance, in the letter of representation, as to the Board's ability to continue as a going concern.
12. **Movement in the pension liability:** The pension liability has increased by £52.5 million at 31 March 2009 following the latest actuarial review for the purposes of FRS17 – *Retirement Benefits*. This considers the long term view for the Board in meeting its future commitments having taken employer's contribution rates and revenues generated from investments into account.
13. Having considered the work of the actuary in relation to the FRS17 valuation in accordance with ISA 620 *Using the Work of an Expert*, I am satisfied that
 - the expert was suitably competent and objective
 - there was sufficient appropriate evidence that the scope of the expert's work at Lothian and Borders Police Board was adequate for the purposes of the Audit Scotland
 - the expert's work provided appropriate evidence in relation to amounts relating to the retirement benefits recognised in the accounts of Lothian and Borders Police Board.
14. **Pensions Reserve:** The Statement of Recommended Practice (SORP) requires police boards to make a charge to the income and expenditure account for pension costs based on FRS 17. The 2003 Regulation allows the FRS 17-based costs of specified pension schemes to be removed from being a charge to the general fund so that only the actual pension payments are charged to that fund. This removal is shown as a reconciling item in the statement of movement in the general fund balance, and the charge is instead made to the pension reserve.
15. However, it has been identified that *The Local Government Pension Reserve Fund (Scotland) Regulation 2003* (the 2003 Regulation), which provides the statutory basis for police boards to remove costs based on *FRS 17 Retirement benefits* from being a charge to the general fund, does not apply to the new pension schemes for police and fire that were set up from 6 April 2006. Although the Scottish Government intends to amend the regulations to include these schemes, there is currently no statutory basis for removing the FRS17 based costs from the general funds of Police and Fire and Rescue services in respect of the new schemes. Following discussion with management, it was agreed that the financial statements would be amended to reflect the revised



position and the prior year. This has resulted in a decrease in the reported 2008/09 pension reserve (from £1,135 million to £1,132 million) and a decrease in the 2007/08 balance from £1,083 million to £1,081 million.

16. **Pension Commutations:** The Board's Balance Sheet at 31 March 2009 records a Pension Liability of £1,135.2 million. The Scottish Public Pension Agency's Police Pensions Circular No 2009/5, issued on 11 June 2009, provided further guidance on the implementation of the new actuarial factors confirmed in SPPA Police Circular 2008/3 for the commutation of pension into a lump sum in the Police Pension Scheme 1987. Ministers have decided that the new factors should be applied from 1 October 2006. The Scottish Government has confirmed that the costs of funding this change will be met by way of additional Police Grant. The financial statements have therefore been adjusted to reflect the additional £2.162 million funding.

Acknowledgements

17. We would like to express our thanks to the staff of Lothian and Borders Police Board for their help and assistance during the audit of this year's financial statements which has enabled the appointed auditor to certify the statements by the Controller of Audit's target date.



September 2009



Appendix A

Proposed Independent Auditor's Report

Independent auditor's report to the members of Lothian and Borders Police Board and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Lothian and Borders Police Board for the year ended 31 March 2009 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash-Flow Statement, and the related notes and the Statement of Accounting Policies. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Treasurer and auditor

The treasurer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 - A Statement of Recommended Practice (the 2008 SORP) are set out in the Statement of Responsibilities for the financial statements.

My responsibility is to audit 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.

I report my opinion as to whether the financial statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, of the financial position of the Police Board and its group and its income and expenditure for the year, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

I also report to you if, in my opinion, the Board has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the Annual Governance Statement reflects compliance with the SORP, and I report if, in my opinion, it does not. I am not required to consider whether this 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.

I read the other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises the List of Members and Officials, the Foreword, and the Service Profile and Statistics. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.



Basis of audit opinion

I conducted my audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Accounts Commission. My audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Treasurer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Board's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion the financial statements

- give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, of the financial position of Lothian and Borders Police Board as at 31 March 2009 and its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Alasdair Craik FCCA
Senior Audit Manager
Audit Scotland – Audit Services
Osborne House
1/5 Osborne Terrace
Edinburgh
EH12 5HG

30 September 2009



Appendix B

Non-Adjusted Errors within the 2008/09 Annual Accounts

Below is a summary of the non-adjusted error which has not been processed in the accounts, with an explanation.

Non-Adjusted Errors

Narrative	Income & Expenditure Account		Balance Sheet		Statement of Movement on the General Fund Balance	
	Dr £000	Cr £000	Dr £000	Cr £000	Dr £000	Cr £000
Fixed assets depreciation				852		
Capital adjustment account			852			
<i>Depreciation relating to assets not subject to revaluation incorrectly written off instead of being carried forward</i>						
Income and expenditure: depreciation		56				
Income and expenditure: profit / loss on disposal	56					
SMGFB: Depreciation					56	
SMGFB: profit on sale of fixed assets						56
Fixed Assets: depreciation			56			
Capital adjustment account				56		
<i>Being adjustment for depreciation erroneously charged on assets sold during the year</i>						
Capital adjustment account			92			
Revaluation reserve				92		
<i>Disposal costs taken fully to capital adjustment account instead of the revalued amount being taken to revaluation reserve</i>						
Totals	56	56	1000	1000	56	56

There is no effect of these unadjusted differences on the income and expenditure account. Due to the nature of the adjustments, there is an increase in the net liabilities position of £1 million.