Government and Public Sector

August 2010

Strathclyde Joint Police Board
Annual Report to Members and the Controller of Audit 2009/10

Contents

1. Executive Commentary

Introduction – Section 2

Our overall responsibility as external auditor of Strathclyde Joint Police Board ("the Board") is to undertake our audit in accordance with the principles contained in the Audit Scotland Code of Audit Practice ("the Code"), revised and published in March 2007. We have a dual reporting responsibility for the audit: to the Members of Strathclyde Joint Police Board and to the Controller of Audit.

Financial Statements and Audit Opinions – Section 3

The financial statements of the Board for the year ended 31 March 2010 have been prepared to comply with accounting requirements contained in the 2009 SORP and have been properly prepared in accordance with the Local Government (Scotland) Act 1973. We are pleased to report that in our opinion, the financial statements show a **true and fair view** of the financial position of Strathclyde Joint Police Board as at 31 March 2010 and of the income and expenditure and cashflows for the year then ended. We are therefore pleased to report that our opinion on the financial statements is **unqualified.**

The Police and Fire Services (Scotland) Act 2001 makes provision for the Board to carry forward unspent balances each financial year provided they are below 3% of the contributions (precepts) received from the Board's twelve constituent local authorities. In addition, the cumulative balance (the in year surplus including reserves, but excluding the pensions reserve) carried forward into future years should not exceed 5% of the local authority precepts received in year, unless specific consent is obtained from the Scottish Government. The Board was within both limits for the year ended 31 March 2010.

As a result of our work, we proposed a number of audit adjustments and all have been processed by management in the finalised version of the 2009/10 financial statements.

Going Concern

The Board's balance sheet discloses an excess of liabilities over assets of £4,562 million (£2,975 million in 2008/09) due to the accrual of pension liabilities. An excess of liabilities over assets is one of the indicators that may lead to concerns over the ability of an organisation to continue as a going concern. Therefore in accordance with International Standards on Auditing ("ISA") 520 we have considered whether the Board is entitled to prepare its financial statements on a going concern basis. The Board has adopted the going concern basis for the preparation of its financial statements because the pension liability does not impact on its underlying ability to meet its current and ongoing commitments. Future pension payments will be made as they fall due, and will be funded by the contributions from constituent authorities in the form of the precept levy. Formal representations have been obtained from management in this regard and we agree with the basis of the preparation of the accounts.

2009/10 Finance Performance – Section 4

The Board's approved budget for the year was set at £538.9 million which was to be financed by Police Grant of £271.6 million and £267.3 million from Precept on Constituent Authorities. For the year ended 31 March 2010, the Board reported an overall deficit of £170 million (£179.9 million in 2008/09) on its Income and Expenditure Account. After adjusting this in-year deficit to reflect the necessary statutory and non statutory adjustments the final closing position on the General Fund shows a surplus for the year of £5.8 million. The Board had budgeted for a £4 million deficit in the year which would be covered through the application of the general fund reserve. Therefore, the actual outturn was £9.8 million more favourable than budgeted.

In terms of non-financial performance, the Board has performed well and has achieved the majority of the 2009/10 force targets in respect of its Control Strategy 2007-2010. In particular crimes of violence have reduced throughout 2009/10 and are lower than the immediately preceding years.

Governance and Control – Section 5

We have assessed the Board's overall governance arrangements including a review of Board and key committee minutes, financial reporting to the Board, and risk management. We consider that appropriate arrangements and reporting are in place. We have also considered key areas of risk to the Board including performance management and partnership working. These arrangements appear to be reasonable.

The Code of Audit Practice requires us to review and report on the Board's Statement on Internal Control. The Board has used the correct format for its Statement and has outlined the processes it has employed to identify and evaluate risks. In addition, key elements of the Board's control framework have been highlighted. Based on our normal audit procedures, **we do not disagree** with the disclosures contained in the Statement.

Managing in Uncertain Times – Section 6

The Board currently faces a period of uncertainty with regards to the level of funding that will be available in the next Spending Review period. It is expected that the situation will become clearer in late Autumn when the results of the 2010 spending review are announced.

It is evident that the Board has taken steps to address these challenges, in particular through the introduction of a Force Change Programme to manage efficiency. From our experience, we note the following key areas in addressing the challenges ahead:

- Honesty and awareness of the size of the challenge
- Strong leadership
- The need to engage with the whole organisation and external stakeholders
- Realistic and detailed plans to resolve the situation
- Rigorous implementation (programme management arrangements)

- Financial control and discipline

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The Board has recognised the need to secure savings of approximately £16.3 million in 2010/11. However, there is recognition that in future years the Board is likely to face severe funding cuts and further savings will be required. It is important that these are tackled at the earliest possible opportunity in order to allow the Board the maximum possible time to develop saving programmes and deliver upon them.

2. Introduction

Purpose of this report

The Annual Audit Report which follows is designed to set out the scope, nature and extent of our audit, and to summarise our opinion and conclusions on issues arising. Specifically this will direct your attention to matters of significance that have arisen out of the 2009/10 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

Scope, nature and extent of our audit

Our overall responsibility as external auditor of Strathclyde Joint Police Board ("the Board") is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in March 2007. In this regard, the Code sets out the need for public sector audits to be planned and undertaken from a wider perspective than in the private sector involving not only assurance on the financial statements but also consideration of areas such as regularity, propriety, performance and the use of resources. It also sets out the need to recognise that the overall audit process is a co-ordinated approach involving the "appointed auditor" and the Auditor General for Scotland. Our audit has been planned and conducted to take account of these wider perspectives.

Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260: "*Communication of audit matters to those charged with governance*", we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity. This Annual Audit Report to Members, together with previous reports to the Audit Committee throughout the year, discharges the requirements of ISA 260.

Acknowledgment

We would like to formally extend our thanks to the management and staff of the Board for the assistance they have given us throughout the audit process.

PricewaterhouseCoopers LLP
Glasgow

August 2010

3. Financial Statements and Audit Opinion

Audit opinion

Our audit opinion concerns the presentation of Strathclyde Joint Police Board's financial position as at 31 March 2010 and its income and expenditure and cashflows for the year then ended.

Our opinion on the accounts states whether 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 the Board as at 31 March 2010 and of its income and expenditure and cashflows for the year then ended; and
- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

We are pleased to report that our opinion on the true and fair view of the 2009/10 financial statements is **unqualified**.

Police and Fire Services (Scotland) Act 2001

The Police and Fire Services (Scotland) Act 2001 makes provision for the Board to carry forward unspent balances each financial year within prescribed limits. The surplus carried forward into the future year by the Board must not exceed 3% of the contributions (precepts) received from the Board's twelve constituent local authorities. In addition, the cumulative balance (the in year surplus including reserves, but excluding the pensions reserve) carried forward into future years should not exceed 5% of the local authority precepts received in year, unless specific consent is obtained from the Scottish Government. The Board's performance against these targets for the year ended 31 March 2010 was:

Limit	Limit set %	Actual % carry forward
In year carry forward	3	1.78%
Cumulative carry forward	5	4.78%

Audit Process

The financial statements and supporting schedules were presented to us for audit within the agreed timetable and the quality of working papers provided by management was of a high standard. Overall an efficient audit process was achieved through an effective working relationship with your staff.

Basis of Preparation

The financial statements were prepared in accordance with the accounting requirements contained in the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice (“SORP”).

Government bodies, including Joint Boards, are required to adopt International Financial Reporting Standards (IFRS) from 2010/11 onwards. The objective is to bring the public sector into line with the private sector, and to introduce greater comparability and consistency across public sector accounting. This will require the restatement of the 2009/10 financial statements on an IFRS basis in order to provide prior year comparatives in the 2010/11 IFRS compliant accounts.

In order to assist the transition to IFRS based accounting, the 2009 SORP has adopted the IFRS accounting standard (IFRIC 12) which covers private finance initiatives (PFI) one year early. A key difference in the accounting requirements is the approach taken to determine whether a PFI asset should be recognised on the balance sheet. Significant work has been undertaken (in consultation with the CIPFA/PricewaterhouseCoopers IFRS technical support team) to identify and account for the Board’s PFI contract in accordance with IFRIC 12. This has resulted in the Board’s training centre at Jackton, East Kilbride, coming on to the balance for the first time in 2009/10. In addition, the 2008/09 comparative figures have been restated to reflect the financial position of the Board had the PFI been accounted for in the same way in the previous year.

Approval

The Board’s draft financial statements were signed as authorised for issue by the Treasurer to the Board on 29 June 2010 and submitted to the Controller of Audit by the statutory deadline of 30 June 2010.

Unadjusted misstatements

Under ISA 260 - “Communication of audit matters to those charged with governance”, we are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those which we deem to be of a trivial nature.

As a result of our work, we proposed a number of audit adjustments and all of these have been processed by management in the finalised version of the 2009/10 financial statements. We therefore have no unadjusted misstatements to report.

Accounting Issues

A number of accounting issues were discussed with management during the audit. The most significant of these are set out below:

Going Concern

The Board's balance sheet discloses an excess of liabilities over assets of £4,562 million (£2,975 million in 2008/09) due to the accrual of pension liabilities. An excess of liabilities over assets is one of the indicators that may lead to concerns over the ability of an organisation to continue as a going concern. Therefore in accordance with International Standards on Auditing ("ISA") 520 we have considered whether the Board is entitled to prepare its financial statements on a going concern basis. The Board has adopted the going concern basis for the preparation of its financial statements because the pension liability does not impact on its underlying ability to meet its current and ongoing commitments. Future pension payments will be made as they fall due, and will be funded by the contributions from constituent authorities in the form of the precept levy. Formal representations have been obtained from management in this regard and we agree with the basis of the preparation of the accounts.

The pension liability on the balance sheet has increased by £1,587 million in 2009/10. This is principally due to the fact that the financial assumptions at 31 March 2010 are less favourable than they were at 31 March 2009, and the mortality assumptions have been amended to reflect improvements in life expectancy.

Pension benefits are linked to price and salary inflation. Central to calculations of future pension benefits, and therefore the pension's liability on the balance sheet, is the real discount rate which is used to determine the current value of future liabilities. A fall in corporate bond yields over the year combined with an increase in the future level of inflation expectations has contributed to a reduction in the real discount rate from 3.7% at 31 March 2009 to 1.6% at 31 March 2010 resulting in a higher value being placed on the liabilities. The Board position is consistent with other joint boards that operate unfunded pension schemes.

Maintenance of a lease/contracts register

During our audit procedures we identified that there were a number of property operating leases that were not disclosed in the notes to the financial statements. Management was subsequently able to incorporate the details of these leases into the note to the financial statements prior to the publication of the final accounts. If the finance department were to maintain a comprehensive leases register this would have ensured that these would have been included in the financial statements from the inception of the lease agreements.

Going forward, the adoption of IFRS accounting in the local authority sector means that the criteria for classifying leases as either operating or finance leases will change, with the effect being that more leases are likely to be classified as finance leases. This requires any such leases to be capitalised on the balance sheet. It is therefore important that the Board puts in place a control mechanism to ensure that all leases and contracts entered into are recorded in a leases/contracts register in order that they can be assessed against the new accounting criteria and categorised appropriately.

The IFRS accounting regime also requires an organisation to assess all contracts against IFRIC 4 criteria in order to determine whether arrangements that do not take the legal form of a lease (for example, outsourcing arrangements) should be accounted for in accordance with IAS 17.Such arrangements are often found where an asset is used in the delivery of a contract, and in effect the provision of the asset constitutes a lease. The lease must then be assessed to determine whether it is finance or operating in nature and thereafter accounted for appropriately. At present, the Board does not have a comprehensive contracts register and is therefore unable to fully address this IFRS requirement.

ACTION 1

Revaluation of the Police Training and Recruitment centre

In order to assist the transition to IFRS based accounting, the 2009 SORP has adopted the IFRS accounting standard (IFRIC 12) which covers private finance initiatives (PFI) one year early. As previously stated, the key difference of the accounting requirements is the approach to determining whether the PFI contract should be recognised as an asset on the balance sheet. The Board has one PFI arrangement, the Jackton Training and Recruitment centre, which has been brought onto balance sheet in 2009/10 in accordance with the SORP.

The IFRIC12 accounting requirements state that once the PFI asset has been brought on to the balance sheet it must be accounted for in much the same way as any owned assets in respect of depreciation, revaluation and impairment. Therefore the training centre should be revalued at least every five years in the same way that all land and buildings are valued by the Force Valuer as part of the five year rolling programme. We noted the training centre has not been valued since it became operational in 2001 and is therefore due to be revalued.

ACTION 2

Verification of the Existence Fixed Assets

The remaining ICT assets were added to the new fixed asset register (Asset Manager) on the 1 April 2009. As part of this exercise, management undertook a verification exercise to confirm that these ICT assets were still in use. This verifications review of ICT assets identified a large number of assets which had been disposed of, but were still on the fixed asset register. Whilst the majority of these assets were fully written down and therefore had a nil net book value, they still amounted to a gross cost value of £14m which had to be accounted for as disposals in 2009/10.

Regular asset verification exercises are undertaken for Land and Buildings and Vehicles but not for ICT. Now that all assets have been migrated to the new fixed asset register, we would recommend that a process is put in place to verify the existence all fixed assets on a periodic basis.

ACTION 3

Publication of Members Allowances

The SORP requires that Members' allowances for the financial year should be published on the Board’s website by 1st June. However, no details of expenses had been made available for public viewing on the Board’s website at the time that the audit fieldwork concluded in July 2010, albeit members’ allowances are published on their home Authority’s website. However, because the Board has a Convenor and two Vice Convenors who are paid a specific allowance for their role in respect of the Board, this should be disclosed on the Board’s website.

ACTION 4

4. 2009/10 Performance

Financial Results 2009/10

	£m	£m
Gross Expenditure	593.851	
Gross Income	(101.037)	
Net Cost of Services		**492.814**
Net Operating Expenditure		**709.216**
(including impact on loss of disposal, interest receivable and payable, pension interest costs and expected return on assets)		
Funded by:		
Police Grant	(271.889)	
Precepts from Local Authorities	(267.898)	
		(539.187)
Income and Expenditure deficit for the year		**170.029**
Amount required to be credited to the General Fund Balance		**(175.850)**
(Increase) in the General Fund balance		**(5.821)**

For the year ended 31 March 2010, the Board reported an overall deficit of £170 million (£179.9 million in 2008/09) on its Income and Expenditure Account. After adjusting this in-year deficit to reflect the necessary statutory and non statutory adjustments the General Fund shows a surplus for the year of £5.8 million. The Board had budgeted for a £4 million deficit in the year which would be covered through the application of the general fund reserve. Therefore, the actual outturn was £9.8 million more favourable than budgeted. The main budget variances that account for the outturn position are as follows:

Pension Costs - £10.7 million under spend

Net police pensions were under spent due to delays in expected lump sum commutation payments and the receipt of additional transfer values as a result of the significant increase in the recruitment of police officers.

Employee Costs – £13.2 million under spend

The main element (£8.5 million) of the under spend was lower police officers' salaries costs due to the effect of retiring officers being replaced with new officers on lower salaries. The police staff under spend (£4.7million) relates largely to the current recruitment freeze.

Operational Expenditure – £1.9 million over spend

The main element of this overspend is due to higher clothing and uniforms costs as a result of the body armour replacement programme.

Interest Receivable- £1.5 million under budget

The low Bank of England base interest rate has led to a fall in investment income from short term investments across the public sector. The Board recorded a shortfall against budget of £1.5 million during year.

Managing Financial Performance

Management receives detailed financial information each month to help manage performance against budgets and control expenditure. Detailed management accounts are prepared on a monthly basis. Management accountants liaise with budget holders to analyse the management reports and understand key variances against budgets. The outcomes of the monthly reviews are consolidated into budgetary control reports that are considered by the Board. The extent of information produced and frequency of reporting ensures decision makers have appropriate information on which to base decisions. The reporting arrangements were considered during the year and reported in our Interim Management Letter to the Audit Committee in April 2010.

Managing Performance and Non Financial Performance Targets

The Board has established robust performance management arrangements which are reported on a regular basis to assess the progress towards achieving its strategic and organisational objectives. Strategic targets are benchmarked over the previous period in order that continuous improvement can be demonstrated. Performance information is analysed and recorded in order to provide an indication of emerging crime trends allowing the Board to shift focus and deploy available resources quickly in response to such trends.

The Board has a strong history of providing the public with good performance information, which is available on the Strathclyde Police website. The 2009/10 Chief Constable's Annual Report provides the user with a good high-level overview of the Board's performance. Overall the Board has performed well, and has achieved the majority of the 2009/10 force targets in respect of its Control Strategy 2007-2010. In particular crimes of violence have reduced throughout 2009/10 and are lower than the immediately preceding years.

The Scottish Policing Performance Framework (SPPF) was introduced in 2007 to provide a consistent national model for the measurement and reporting of performance information and to support performance improvement across Scottish Police Forces. The SPPF also complements and supports the delivery of the Scottish Government's strategic objectives. The Board is required to submit quarterly performance information to the Scottish Government as part of this framework. As part of our audit we have assessed the arrangements in place for the collection and publication of accurate and complete information. We noted the Board has a systematic approach to reviewing and verifying performance information before final submission. However we were unable to agree performance data for three out of eight indicators per the quarterly return to their underlying information sources because it had not been retained.

ACTION 5

5. Governance and Control

Overall Governance Arrangements

The Board undertook a review to assess its governance arrangements during 2009/10. The review highlighted a number of areas for improvement. In particular, it was recommended that the committee structures be adjusted to enhance the Board's management of business and to allowing more effective oversight and scrutiny.

In addition to this review, the Board has reviewed the current governance processes relating to approval of minutes, delegations of authority, the formation of a Police Board budget and a system of management controls, and enhancing information sharing arrangements with constituent local authorities in order to improve the transfer of information and knowledge with local authorities.

Best Value

Audit Scotland and HMICS are working collaboratively to deliver Best Value audits to Scottish Police Boards and it is expected that the Board will be subject to a Best Value audit during Autumn 2010. The main conclusions reported from the audits undertaken to date state that the overall operational policing arrangements were satisfactory, but that there were issues around the ability of Boards to demonstrate Best Value and being able to hold the Chief Constable to account through informed scrutiny by the Board.

In response to these recent Best Value audits, the Board has recently undertaken a review of its arrangements in relation to governance, accountability, scrutiny and oversight. The review also took account of the significant financial challenges faced by the Board going forward.

The review recognised the need for the Board to commission specific reviews of areas where further scrutiny is warranted and that the Board should work jointly with the Force to develop a long term joint vision. In addition, the review states that there should be further scrutiny of the Force's community planning activity and that single outcome agreements (SOAs) should be subject to approval by the Board and should be subsequently monitored on an ongoing basis. The review also highlighted the need for the Corporate Risk Register to be jointly owned by the Board and the Force, thus ensuring that there is full governance and oversight over risk management.

Partnership Working

The Board continues to explore new ways of working with partners, both to improve the effectiveness of services provided and in order to achieve efficiency savings. The feasibility of collaborating with Strathclyde Fire and Rescue to implement a shared Storage & Logistics facility has been considered in order to review the possibility of potential savings from collaborative procurement.

Furthermore each territorial division within the Board has been devolved responsibility for agreeing Single Outcome Agreements (SOAs) with the planning partners in each local authority. The introduction of community based SOAs has had an impact on operational policing, as a result of different priorities in the diverse communities within Strathclyde and further represents partnership working in local communities.

Statement on Internal Control

The Code of Audit Practice requires us to review and report on the Board's Statement on Internal Control. The Board has used the correct format for its Statement and has outlined the processes it has employed to identify and evaluate risks. In addition, key elements of the Board's control framework have been highlighted. Based on our normal audit procedures, we do not disagree with the disclosures contained in the Statement.

Systems of Internal Control

The results of our work on systems of internal control were communicated to the Audit Committee in our Interim Management Letter on 28 April 2010. The report contained 10 recommendations to improve controls, none of which were graded as higher risk in nature. Management has completed an action plan detailing those individuals responsible for implementing our recommendations and the timetable for completion. We will follow up this action plan during our 2010/11 audit process.

Follow up of outstanding recommendations

We followed up the Board's progress in implementing recommendations made in the prior year. Our Follow up report will be considered at the Audit Committee meeting on 18 August 2010. At the time of reporting, of the 24 agreed actions, progress was as follows:

Status	Annual Report 2008/09	Interim Management Letter 2008/09	Follow-Up 2008/09	Total
Action Implemented	3	4	14	21
Action in Progress	-	1	-	1
Little Action to Date	-	2	-	1
Not yet due	-	-	-	1
Total	**3**	**7**	**14**	**24**

We are pleased to report that 88% of the recommendations made have been implemented in full which demonstrates a significant commitment by management to improve the overall control environment within the Board.

Information Technology General Controls

ISA (UK&I) 315.93 requires auditors to "… obtain an understanding of how the entity has responded to risks arising from IT". Information Technology General Controls (ITGCs) are controls put in place by management to mitigate those risks. ITGCs help ensure the continued proper operation of information systems to maintain the integrity of information and security of data.

During our 2009/10 interim visit, we performed ITGC procedures and identified two medium risks in relation to IT. These had already been raised as part of 2007/08 ITGC work and have been included in the Follow up Report 2009/10.

National Fraud Initiative

The National Fraud Initiative (NFI) brings together data from health bodies, councils, police and fire rescue bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud.

As reported in our Interim Management letter (28 April 2010), the Board has investigated all recommended matches. As a result the Board had fully investigated all match reports by the 30 September 2009 deadline. It was noted that there were no frauds identified during the 2008/09 NFI exercise.

6. Managing in Uncertain Times

The UK economy went into recession in mid-2008 for the first time since 1991. By summer 2009, UK economic output had fallen for five consecutive quarters. Significant financial pressures remain and the future economic position is uncertain and difficult to predict.

In response to the recession the UK Government almost doubled its level of borrowing to £175 billion in 2009/10 to allow it to increase public spending to support the economy. This level of borrowing means that the UK Government will need to pay higher debt interest payments, which in turn reduces the amount left for spending on the public sector. The recent Westminster General Election has resulted in a change of Government and this has led to a change in the plans for the repayment of national debt with the new coalition government planning to halve the deficit by 2013/14. In order to achieve this ambitious target, significant reductions in public sector spending will be required. A recent paper by the Scottish Government Chief Economist predicts that public sector spending in Scotland may fall in real terms by 3% on average every year to 2014/15 and will take a total of 12 to 15 years to get back to 2009/10 levels. However, if certain sectors are protected, this will result in larger average cuts on those that are not.

Further details of this challenge may become clearer after the Westminster Government determines the level of funding available to the Scottish Government for the 2010 Spending Review period, although the impact this will have on the Public Sector in Scotland and the Board specifically may take some time to become apparent.

In April 2009, the UK Government also announced that Public Sector **capital budgets would fall**.

Taken together, these factors will have **serious consequences** for the Scottish budget. As a result of the current financial position, Audit Scotland has issued a number of reports on the matter. Key reporting themes from two of these reports are highlighted below.

Audit Scotland - Scotland’s Public Finances: Preparing for the Future

In November 2009 Audit Scotland published its report: ‘Scotland’s Public Finances: Preparing for the Future’. This report highlighted the fact that the Scottish Government budget is likely to have peaked in 2009/10 for the foreseeable future. This means that individual public bodies will have **smaller budgets** in future years. It highlighted that, in addition, **other public sector income is likely to be less than previously forecast** – in particular, capital funding, which may affect the Board’s ability to deliver its capital programme.

The report concluded that we are at a real **historical breakpoint** in public finances.

Audit Scotland - Improving Public Sector Efficiencies

Following on from the Scotland’s Public Finances report, Audit Scotland published a further report in February 2010: ‘Improving public sector efficiency’. It provided a position statement on the first year (2008/09) of the Efficient Government Programme (the Programme), which aims to deliver £1.6 billion efficiency savings over the three years to 2010/11. It also gave an update on how the Scottish Government and public bodies have addressed the recommendations made in a 2006 Audit Scotland report about the previous efficiency programme.

The report noted that Scottish public bodies had reported more efficiency savings than the Government's two per cent target. However, there are serious financial challenges ahead – the biggest since devolution – and making the required savings simply through efficiency will become increasingly difficult.

The report recommends that in order to deal with reduced future funding, public bodies need to consider fresh approaches to improving efficiency and productivity. They must take a more fundamental approach to identifying priorities, improving the productivity of public services, and to improving collaboration and joint working.

To support these high-level recommendations, Audit Scotland, the Northern Ireland Audit Office and the Wales Audit Office have drawn on their combined experience to develop a detailed good practice checklist. The checklist is intended to promote detailed review and reflection and, if necessary, a basis for improvement. We recommend that those responsible for leading efficiency and improvement work at Strathclyde Joint Police Board should formally assess themselves against each question.

The Strathclyde Joint Police Board Perspective

The Board currently faces a period of uncertainty with regards to the level of funding that will be available in the next Spending Review period. It is expected that the situation will become clearer in late Autumn when the results of the 2010 spending review are announced.

The Board's future projections indicate that Strathclyde Police could face a significant funding shortfall by 2014/15. As a result the Board has introduced a Force Change Programme to manage efficiency. The Change Programme Board meets to discuss the future direction of the Board and to address key risks associated with implementing the change programme. In addition a Business Coordination Unit has been established to report on the progress made against the key themes set out as part of the Change Programme. The Board has recognised that effective communication with Trade Unions and staff associations is critical to the success of the delivering the radical change that is required.

Due to the challenging economic outlook facing the public sector in Scotland, the Board will have to increase the level of direct cash releasing efficiency savings. The initiatives that are currently being worked towards in order to make savings are as follows –

- A freeze on police officer and police staff recruitment;
- a 20% savings target for all support departments;
- a 2% reduction for all operational divisions;
- a 25% reduction in operational and support overtime;
- a further reduction in supervisory ranks/ratios; and
- a voluntary redundancy/early retirement initiative.

The progress against these initiatives will be reported to the Board on a regular basis.

2010/11 Budget

Summary Revenue Budget strategy 2010/11	£m	£m
Net Expenditure	453.717	
Debt Charges	5.400	
Budget Requirement		**459.117**
Available Funding		**(442.834)**
Efficiency Budget Savings Target		**16.283**
Short term Budget initiatives		
2009/10 Managed Under spend	(5.000)	
2009/10 Outturn savings	(1.210)	
Other Initiatives	(1.950)	
		(8.160)
Medium Term Budget Initiatives		
Reforms	(5.000)	
Other Initiatives	(3.123)	
		(8.123)
		(16.283)

The Board has approved the 2010/11 budget, which requires £16.3 million of efficiency savings in order to achieve a break even position.

The £16.3 million of efficiency savings have been identified and include –

- The utilisation of the £6.2 million under spend achieved in the 2009/10 financial year;
- A reduction of overtime totalling 12.5%; and
- Cuts in the budgets of operational divisions and support departments.

A fundamental change to the budget in 2010/11 is that pension costs have been removed, as responsibility for pensions funding has transferred to the Scottish Government. This has resulted in net expenditure decreasing from the £583.2 million budgeted for 2009/10 to £459.1 million for 2010/11.

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Appendices

Appendix A – Action Plan

Ref	Issue and Recommendation	Management Response
1	Going forward, the adoption of IFRS accounting in the local authority sector means that the criteria for classifying leases between operating and finance will change, with the effect being that more leases are likely to be classified as finance leases. This requires any such leases to be capitalised on the balance sheet. It is therefore important that the Board puts in place a control mechanism to ensure that all leases and contracts entered into are recorded with a leases/contracts register in order that they can be assessed against the new accounting criteria and categorised appropriately. The IFRS accounting regime also requires an organisation to assess all contracts against IFRIC 4 criteria in order to determine whether arrangements that do not take the legal form of a lease (for example, outsourcing arrangements) should be accounted for in accordance with IAS 17. Such arrangements are often found where an asset is used in the delivery of a contract, and in effect the provision of the asset constitutes a lease. The lease must then be assessed to determine whether it is finance or operating in nature and thereafter accounted for appropriately. At present, the Board does not have a comprehensive contracts register and is therefore unable to fully address this IFRS requirement. Management should develop a comprehensive leases and contracts register so that the finance department can use this as the basis for ensuring that its financial accounting treatment is in compliance with IFRS. **Risk Rating:** Medium	**Management Response:** Planned IFRS upgrades to the Asset Manager system will be assessed in order to incorporate relevant details for leased properties. A system will be introduced for non property lease contracts however these are of a limited number within Force. **Responsible Officer:** Janet Murray (Acting Finance Manager) **Due Date:** March 2011

Ref	Issue and Recommendation	Management Response
2	The IFRIC12 accounting requirements state that once the PFI asset has been brought on to the balance sheet it must be accounted for in much the same way as any owned assets in respect of depreciation, revaluation and impairment. Therefore the training centre should be revalued at least every five years in the same way that all land and buildings are valued by the Force Valuer as part of the five year rolling programme. We noted the training centre has not been valued since it became operational in 2001 and is therefore due to be revalued. Management should value the PFI asset to ensure that the asset is correctly recognised on the balance sheet. **Risk Rating:** Medium	**Management Response:** The Force Training and Recruitment Centre (FTC) will be included within the rolling programme of valuations and as such will be due for revaluation in 2012/13. **Responsible Officer:** Janet Murray (Acting Finance Manager) **Due Date:** April 2012
3	The remaining ICT assets were added to the new fixed asset register (Asset Manager) on the 1 April 2009. As part of this exercise, management undertook a verification exercise to confirm that these ICT assets were still in use. This verifications review of ICT assets identified a large number of assets which had been disposed of, but were still on the fixed asset register. Although most of these assets were fully written down, they still amounted to a gross cost value of £14m which had to be accounted for as disposals in 2009/10. Regular asset verification exercises are undertaken for Land and Buildings and Vehicles but not for ICT. Now that all assets have been migrated to the new fixed asset register, we would recommend that a process is put in place to verify the existence all fixed assets on a periodic basis. **Risk Rating:** Medium	**Management Response:** An ongoing process of ICT asset verification will be introduced to ensure the validity on the assets on the register. This process will require the input of the Force Business Relationship Manager and SPSA. **Responsible Officer:** Janet Murray (Acting Finance Manager) **Due Date:** March 2011
4	The SORP requires that Members' allowances for the financial year should be published on the Board's website by 1st June. However, no details of expenses had been made available for public viewing on the Board's website at the time that the audit fieldwork concluded in July 2010, albeit members' allowances are published on their home Authority's website. However, because the Board has a Convenor and two Vice Convenors who are paid a specific allowance for their role in respect of the Board, this should be disclosed on the Board's website. **Risk Rating:** Low	**Management Response:** Subject to final checks and balancing with constituent local authority records the Convener and Vice-conveners allowances and expenses will be published imminently on the Police Authority web site. **Responsible Officer:** Chief Executive **Due Date:** September 2010

Ref	Issue and Recommendation	Management Response
5	The Scottish Policing Performance Framework (SPPF) was introduced to provide a consistent national model for the measurement, reporting of performance information and to support performance improvement across Scottish Police Forces. The SPPF also complements and supports the delivery of the Scottish Government's strategic objectives. The Board is required to submit quarterly performance information as part of this framework. As part of our audit requirements we have assessed the arrangements are in place for the collection and publication of accurate and complete information. We noted the Board has a systematic approach to reviewing and verifying performance information before submission. However we were unable to agree performance data for three out of eight indicators per the quarterly return to their underlying information sources because it had not been retained. Management should retain an appropriate audit trail so that there are sufficient working papers in place to support the performance figures reported to the Scottish Government. **Risk Rating:** Low	**Management Response:** The Force acknowledges the absence of an appropriate audit trail at the financial year end and the processes will be amended to ensure that this is available for future year ends. **Responsible Officer:** Assistant Chief Constable R Nicolson **Due Date:** March 2011

Appendix B – Communications to Management

International Standards on Auditing ("ISA") (UK&I) 260 – Reporting to those charged with Governance, requires that the External Auditor communicates certain matters to those charged with governance. Those charged with Governance is taken to be the Members of the Audit Sub-committee with responsibility discharged through the regular meetings of the Audit Sub-committee during the year. Summarised below are the requirements set out within ISA 260 together with reference to the relevant communication with you during 2009/10 or comments as appropriate.

Communication Required under ISA 260	Reference/Comment
Engagement letters	Signed Engagements Letter with Audit Scotland at the start of our 5 year appointment and updated annually.
Independence	Audit Planning document reported to Audit Sub-committee on 20 January 2010 confirmed no member of audit team has any direct interest, financial or otherwise, in Strathclyde Joint Police Board.
Audit Approach and Scope	Audit Planning document (reported to Audit Sub-committee on 20 January 2010)
Accounting Policies/Practices with a Material Effect on the Financial Statements	Sections 3 and 4 of our Annual Report to Board Members and the Controller of Audit.
Potential Effects of Material Risks and Exposures	Audit Planning document (reported to Audit Sub-committee on 20 January 2010).
Audit Adjustments	Section 4 of our Annual Report to Board Members and the Controller of Audit.
Material Uncertainties relating to Going Concern	None identified.
Disagreement with Management about Matters that could be Significant to the Financial Statements	Not applicable.
Expected Modifications to the Auditor's Report	Not applicable.
Letter of Representation	To be signed by the Treasurer to the Joint Board on 31 August 2010.
Material Weaknesses in Internal Control	Internal Controls findings reported separately in our Interim Management Letter (28 April 2010), Section 7 of our Annual Report to Board Members and the Controller of Audit.
Fraud	Discussed fraud arrangements with the Convenor of the Audit Sub-committee and management throughout audit process.

Communication Required under ISA 260	Reference/Comment
Laws and Regulations	We have not identified any material breaches of laws and regulations in the period which impact on the 2009/10 Financial Statements.
Audit materiality	Our Audit Planning document was presented to Audit Sub-committee on 20 January 2010.
Fair Value Measurement and Disclosure	Included in representation letter, To be signed by the Treasurer to the Joint Board on 31 August 2010.
Related Parties	Other than those transactions disclosed in the financial statements we have not identified any further transactions requiring disclosure.

Formal Reporting to Management during 2009/10

During the year we have presented a number of formal reports to Management and the Audit Sub-committee and produced certain outputs. Our principal outputs during 2009/10 are summarised below:

Formal Output	Timing
Audit Plan	20 January 2010
Interim Management Letter	28 April 2010
Follow-up of 2008/09 Recommendations	18 August 2010
Annual Report to Board Members and the Controller of Audit	18 August 2010
Unqualified Audit Opinion	18 August 2010

Freedom of Information Act (Scotland) 2002

In the event that, pursuant to a request which the institution has received under the Freedom of Information Act (Scotland) 2002 or the Environmental Information Regulations 2004 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), Strathclyde Joint Police Board is required to disclose any information contained in this report, it will notify PwC promptly and will consult with PwC prior to disclosing such report. Strathclyde Joint Police Board agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such report. If, following consultation with PwC, Strathclyde Joint Police Board discloses any of this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.