

Lothian and Borders Police Board

Report to Members and the Controller of Audit
on the 2009/10 Audit

October 2010



 AUDIT SCOTLAND



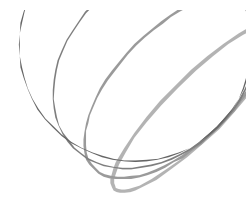
Lothian and Borders Police Board

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Key messages

We have audited the 2009/10 financial statements and examined aspects of performance management and governance, including the key financial and strategic risks being faced by the board. This report sets out our main findings, summarising key outcomes from the 2009/10 audit and the outlook for the period ahead.

Key outcomes from the 2009/10 audit

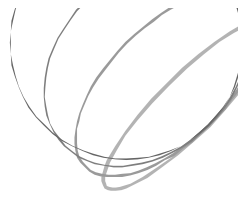
Overall we found the financial stewardship of the board during the year to be satisfactory. The main conclusions and outcomes from the audit are highlighted below:

- we have given an unqualified opinion on the financial statements of Lothian and Borders Police Board
- the board reported an overall deficit at the year end, however after adjusting for items not to be charged to the general fund, an overall year end surplus of £392k was transferred to reserves
- as at 31 March 2010 the board remained within carry forward limits
- final accounts preparation procedures and working papers could be improved
- many aspects of a sound corporate governance framework are in place
- Internal Audit concluded that reasonable assurance could be placed upon the adequacy and effectiveness of the board's internal financial control systems in the year to 31 March 2010
- the board are benchmarking services against other boards in their drive to demonstrate continued improvement in a number of key areas.

Outlook

Key issues for the board in the future include:

- delivering continuous improvement in service delivery and ensuring efficient use of resources in the face of increasing financial constraints
- working with councils and other partners to deliver the outcomes of Single Outcome Agreements (SOAs)
- the board will likely be subject to a Best Value audit over the coming year.

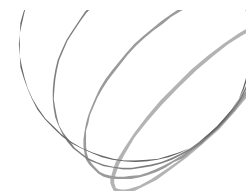


Key issues for the attention of members are outlined in an Action Plan included at appendix A of this report.

We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members during the course of the audit.

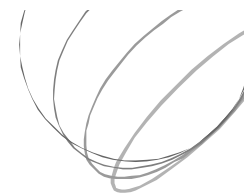


October 2010



Introduction

1. This report summarises the findings from our 2009/10 audit of Lothian and Borders Police Board (the board). A report on the board's corporate governance arrangements issued in the course of the year included recommendations for improvements. We do not repeat all of the findings in this report. Instead we focus on the financial statements and any significant findings that have arisen from our review of the management of strategic risks.
 2. The scope of the audit is set out in our Annual Audit Plan (AAP), which was submitted to management in March 2010. The AAP summarises the specific governance and other risks that could affect the board's financial statements. It describes the work we planned to carry out in response to those risks.
 3. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. Reports published in the last year of direct interest to the board are:
 - The Gathering 2009
 - Overview of local government in Scotland 2009
 - How councils work: an improvement series for councillors and officers - Roles and working relationships: are you getting it right?
 - Improving civil contingencies planning
 - Improving public sector efficiency
 - The national fraud initiative in Scotland 2008/09
 - Scotland's public finances – preparing for the future
 - Improving public sector purchasing
- (Full copies of the studies can be obtained from Audit Scotland's web page at www.audit-scotland.gov.uk).
4. Appendix A is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and have agreed to take the specific steps set out in the column headed *Planned Management Action*. We do not expect all risks to be eliminated or even minimised. What we are expecting to see is that the board understands its risks and has in place mechanisms to manage them. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
 5. This report is addressed to members and the Controller of Audit. It will be published on our website after consideration by the board. The Controller of Audit may use the information in this report for the annual overview of local authority audits to the Accounts Commission later this year. The overview report is published and it is also presented to the Local Government and Communities Committee of the Scottish Parliament.



Financial statements

Introduction

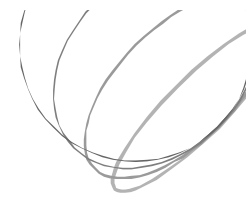
6. The financial statements are an essential means by which the board accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources. This section summarises the results of our audit on the financial statements.

Audit opinion

7. We have given an unqualified opinion that the financial statements of Lothian and Borders Police Board for 2009/10 give a true and fair view of the financial position and expenditure and income of the board for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
8. We were satisfied with disclosures made in the annual governance statement and the adequacy of the process put in place by the board to obtain assurances on systems of control.
9. The board's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June.
10. The accounts were certified by the target date of 30 September 2010 and are now available for presentation to members and publication.

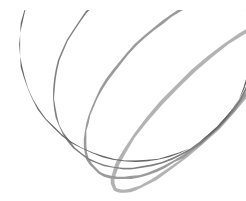
Accounting issues

11. Local authorities in Scotland are required to follow the *Code of Practice on Local Authority Accounting in the United Kingdom 2009 – a Statement of Recommended Practice* (the SORP).
12. The board has adjusted the financial statements to reflect a number of audit findings. As is normal practice, unadjusted errors which are not considered to be material to the accounts as a whole, have been reported to the Treasurer and the Audit Committee via our letter issued in line with International Standard on Auditing 260 (ISA 260) *Communication of audit matters to those charged with governance*. Details of significant accounting issues which arose during the course of our audit are summarised below.
13. **Going concern.** The board's balance sheet at 31 March 2010 has an excess of liabilities over assets of £1,666.8 million due to pension liabilities. 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 received assurances from the Treasurer that it is appropriate to adopt a going concern basis for these financial statements.

14. **Pensions Reserve.** As reported in 2008/09, *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, had not been updated to include the new police pension scheme. These costs were therefore not covered by the regulations. Management agreed to amend the 2008/09 accounts. Amendment regulations were issued during 2010 to correct this oversight and this has resulted in a restatement of the 2008/09 accounts and an increase in the general fund balance of £3.278 million.
15. **Injury Benefits.** As part of the process of arranging the new funding structure for police pension schemes, it was recognised that the statutory instruments for these schemes effectively took them outwith the pension fund. Therefore the statutory basis which allows FRS 17 entries in relation to the pensions to be charged to the pensions reserve do not apply. However statutory guidance issued requires costs in relation to these schemes to be charged to an employee statutory mitigation account in order to neutralise the impact on the general fund, instead of using the pension reserve. The net pension liability shown on the balance sheet has been split to show the separate elements of retirement and injury benefits. In all other respects injury benefits are to be accounted for in the same way as the pension scheme. There is no overall impact on either outturn or balance sheet figures as a result of this change, the difference is presentational.
16. Injury award expenditure paid out during the year was included in the income and expenditure account in error instead of the actuarial defined FRS 17 costs. Actual costs should then replace the actuarial costs in the statement of movement in general fund balances thereby ensuring that the actual costs are included in the total cost. This error had a knock-on effect to both the pension liability and pension reserves figures. If the accounts had been adjusted, the net worth of the board would increase by £1.9 million.
17. **Capital accounting.** Accounting for tangible and intangible assets is complicated and requires the setting up of a revaluation reserve, a usable capital receipts reserve and a capital adjustment account. A number of matters were identified during the audit in relation to capital accounting.
18. Per the SORP, the revaluation reserve is built up from individual balances for each asset and should not carry any negative balances (representing a downward revaluation). Our review of the revaluation reserve identified a number of assets with a negative valuation which should have been charged to the income and expenditure account with a corresponding opposite entry in the statement of movement of general fund balances to negate the impact. The ultimate outcome of the entry would be to effect changes to the revaluation reserve and capital adjustment account. Management advised that they are unable to calculate the value of the misstatement as it requires a review of the various elements within the reserve.



19. A further issue was identified in relation to the write-off of accumulated depreciation. As part of the revaluation exercise in 2008/09, accumulated depreciation was written off erroneously against the capital adjustment account instead of the revaluation reserve (£5.964 million). In addition, an error was made in the actual value of the depreciation to be written off (£1.037 million). This latter adjustment should be refunded to the income and expenditure account with a corresponding entry to the statement of movement of general fund balances to negate the impact. The ultimate effect of these movements would be to change the balances on the capital adjustment account and the revaluation reserve by the net amount of £4.927 million.
20. As there would be no change to the net worth of the police board as a result of these adjustments, I agreed with management that no change need be processed in 2009/10. These balances should be subject to a full review during 2010/11 to ensure that they are properly stated moving forward.

Key risk area 1

21. **Scottish Police Service Authority (SPSA).** The SPSA purchase ICT equipment and assets on behalf of police boards and then recharge the relevant parties. We noted at the year end that the SPSA held a number of balances on behalf of Lothian and Borders Police Board which had not been included in the board's accounts. I have recommended to officers that the processes underlying the transfer of information between the parties is clarified and simplified.

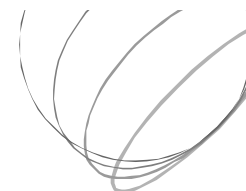
Key risk area 2

Other issues

22. Working papers to support the 2009/10 accounts were not of a sufficiently good quality. We found the majority of working papers had not been prepared in time for the audit to commence and we were unable initially to verify a number of balances within the accounts. As a consequence, the audit was delayed by several weeks while supporting documentation up was provided to us. We would recommend that working papers are compiled at the same time as the financial statements to provide a clear audit trail.
23. We noted some instances where the financial statements could more fully comply with the 2009 SORP. These included the cash flow statement and both the pensions and fixed assets disclosure notes. Officers have agreed that the guidance will be more fully reviewed and the accompanying disclosure checklist will be completed to ensure alignment and compliance with the SORP.

Key risk area 3

24. In June 2010, the Auditor General issued a report on The Gathering which took place on 25 and 26 July 2009 comprising a clan gathering, Highland Games and pageant. The event had a total budget of £2.4 million and attracted public sector grant funding of nearly £500,000 from organisations including EventScotland, the City of Edinburgh Council, Scottish Enterprise Edinburgh and Lothians



and the Scottish Government, but made a financial loss of £516,000. This resulted in the company being unable to pay its creditors, which included Lothian and Borders Police who wrote off a debt of £27,204. The board were kept apprised of the situation.

Legality

25. Through our planned audit work we consider the legality of the board's financial transactions. In addition the Treasurer confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the Chief Constable and senior management team, the financial transactions of the board were in accordance with relevant legislation and regulations. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Outlook

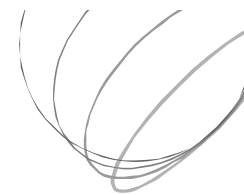
26. **International Financial Reporting Standards (IFRS).** The board has been working to prepare a shadow set of IFRS-compliant statements, in preparation for full implementation in the 2010/11 financial statements. An opening balance sheet as at 1 April 2009 and the comparative 2009/10 balance sheet will both need to be prepared on an IFRS basis. The main issue to be further developed is the calculation of the employee benefit accruals. We will discuss the remaining timetable for preparing a full set of 2009/10 IFRS-compliant statements and any audit input to this process as part of our audit planning for 2010/11.

Key risk area 4

27. **Carbon trading.** From April 2010 a new and complex system for charging for carbon emissions was introduced. The board is required to purchase and account for carbon credits to cover all of its non transport related energy usage. Incentives and penalties will be built into the system to encourage a reduction in carbon emissions. The board have devised a Carbon Management Programme in preparation.

Key risk area 5

28. **New police pensions funding.** [The Police Pension Account \(Scotland\) Regulations 2010](#) set out the new financing system for police pensions from 2010/11. Under the new arrangements, police service pension costs (with the exception of injury benefits and ill-health capital charges) are met through a combination of employee contributions, a new actuarially-based employer's contribution calculated as a percentage of pensionable pay and, as required, a 'top-up' payment by the Scottish Government. Authorities are required to set up and maintain a new pension account into which defined income will be paid (e.g. member and employer contributions) and out of which pension payments will be made. Any shortfall between the pension account income and expenditure will be met by top up payments from the Scottish Government and any surpluses will be taken into account as part of future pension funding.



Use of resources

Financial results

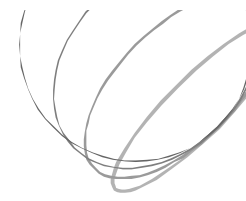
29. The board's net operating expenditure in 2009/10 was £285.7 million. This was met by government grant and constituent authority contributions of £211.1 million, resulting in an income and expenditure account deficit of £74.6 million. This deficit, equating to 26.1% of net expenditure, largely reflects the unfunded nature of the police pension scheme.
30. However, the movement on the general fund balance is also an important aspect of the board's stewardship as the main budget reference point, the main differences being:
- capital investment is accounted for as it is financed, rather than when fixed assets are consumed
 - retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.
31. After adjusting for these items, the board reported a surplus for the year of £0.392 million which has been transferred to the general fund.

Reserves and balances

32. The board holds a general fund which consists of both earmarked amounts set aside to support future years' expenditure and a contingency for unexpected events or emergencies. The general fund also includes a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing. The board has policies in place which set out what reserves are held and their intended use.
33. As at 31 March 2010, the board held a general fund balance of £10.0 million, of which £5.3 million has been 'earmarked' to cover particular commitments, including £4.7 million set aside to fund the future payment of commuted police pensions. The remaining balance of £4.7 million is available to the board to meet unexpected risks and developments and as a working balance assist cash flow management. The board's aggregate level of reserves was within overall carry forward limits approved by ministers.

Capital performance 2009/10

34. Since the introduction of the Prudential Code in April 2004, the board can decide locally on a capital investment strategy which meets best value requirements as well as being affordable.



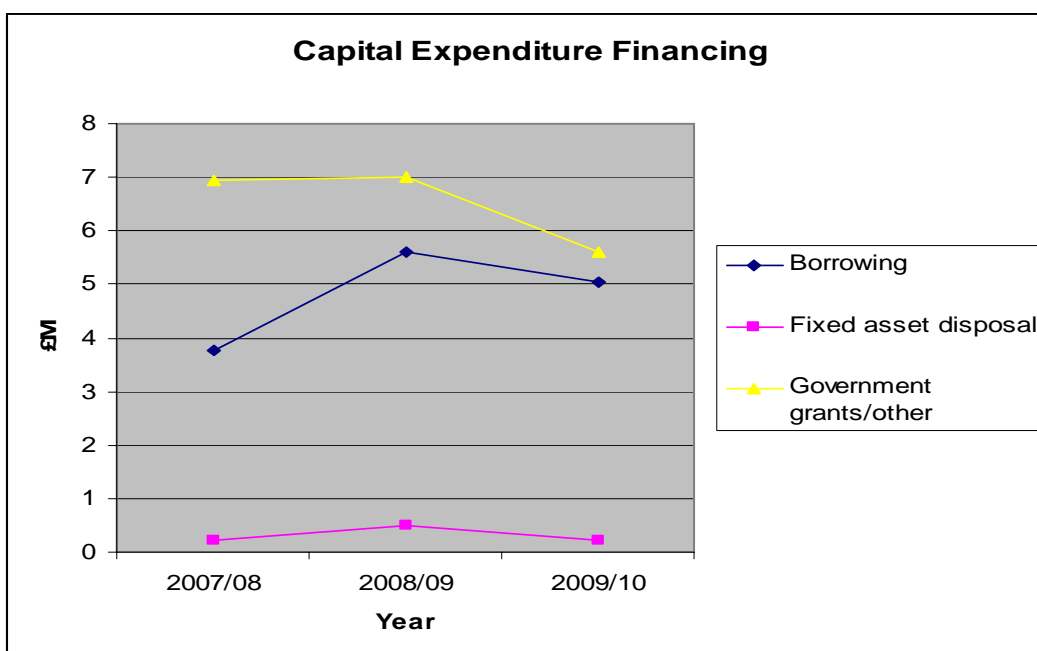
35. Capital expenditure in 2009/10 totalled £10.9 million (2008/09 - £13.1 million), £0.1 million less than budget.

36. The trend in capital investment and sources of funds is reflected in exhibit 1.

Exhibit 1

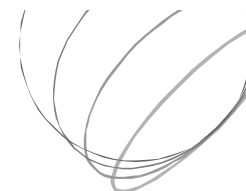
Sources of finance for capital expenditure 2007/08-2009/10

	2007/08 Actual £M	2008/09 Actual £M	2009/10 Actual £M	2009/10 Budget £M
Borrowing	3.753	5.612	4.989	6.242
Fixed Asset Disposal	0.219	0.509	0.222	0.100
Government Grants/Other	6.946	7.000	5.618	4.623
Total	10.918	13.121	10.829	10.965



West Lothian Civic Centre

37. The new West Lothian Civic Centre opened in Livingston in 2009. This joint venture, primarily undertaken with West Lothian Council, saw the construction of large office premises which accommodates Livingston Police Station. A number of other public sector bodies are also leasing accommodation within the building, with lease payments being made directly to West Lothian Council.



38. The original business plan for the construction of the Civic Centre included income from the disposal of the existing Livingston Police Station. Due to the economic downturn, no sale was concluded and the board have instead leased out this building. Due to other underspends on the capital programme the board were able to remain with their capital budget. It is anticipated that the asset will be marketed again when market conditions improve.

Financial planning

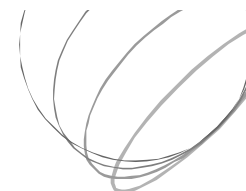
39. The board are currently working on the assumption that funding will be cut by 16-25% over the next three to five years with a potential reduction of as much as 10% in 2011/12. Consequently steps are being taken to reduce costs in a number of areas.
40. The board are considering streamlining processes, reducing demand, and collaborating and rationalising the organisation as part of the Transforming the Service (TTS) programme. Voluntary redundancy has been offered to staff and once take up on this has been identified and quantified, potential future savings will be further examined.
41. The board recognises the need to take immediate action to reduce costs for future years and key decisions are imminent. Savings take time to accrue and the board will need to take immediate action to be sure of achieving savings in the future.

Asset management

42. Effective management of the board's assets helps the board achieve its objectives and obtain best value from its investment in property and other assets. Effective asset management benefits service delivery by making the board's assets work better for staff and service users now and in the future. It also reduces the opportunity cost of money locked up in surplus property and reduces the board's carbon footprint.
43. In 2009, we published *Asset management in local government*. Our study found that strategic asset management was not well developed in most councils. For Scottish councils as a whole, over a quarter of all properties were in poor condition and slightly less than that were not suitable for the services being delivered from them. The board should consider the report findings and assess whether its asset management processes could be improved taking into account the study recommendations.

Key risk area 6

44. The SORP comments on the importance of asset registers, noting that 'an up-to-date register is a prerequisite for proper fixed asset accounting and sound asset management'. At present, the board use Microsoft excel spreadsheets to list its assets and detail related income and expenditure. Audit



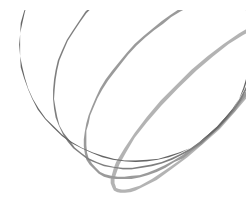
testing has shown that a more sophisticated asset register is required to aid asset management and asset accounting. In addition, the board will have to apply the principles of component accounting as part of the move towards IFRS based accounts. Without an adequate asset register, the board is at risk of being unable to display sound asset management.

Key risk area 7

Outlook

45. The financial challenges facing the Scottish public sector are well documented, with public bodies facing deep and prolonged cuts in funding. In June 2010 the new UK Government set out an Emergency Budget, planning for a period of significant fiscal consolidation. It immediately implemented £6 billion of UK budget reductions. The Scottish Government agreed that it would defer its share of these 2010/11 cuts (estimated as £332 million) until 2011/12, and will have to implement these alongside continuing reductions in the Scottish budget.
46. There remains uncertainty about what the financial implications for Lothian and Borders Police Board will be. The settlement for local government is not expected to be finally known until December 2010.
47. Moving forward it is important that the board has a clear understanding of what its spending priorities are, developing these in partnership with other public sector organisations where appropriate. The immediate challenge is to balance the 2011/12 budget – particularly given the extent to which cuts are frontloaded - but this needs to be achieved in a manner that best supports the board's overall objectives and priorities. Grant reductions are expected to continue until 2015/16 on current projections, and the board will continue to face tough decisions about spending and priorities. The board's response to the economic conditions has been discussed in paragraphs 39-41.
48. As well as addressing the anticipated reduction in funding, the board will also have to manage a range of cost pressures and consider the extent to which they can fund new developments, priorities and responsibilities.
49. There is a further possibility that the economic recession could result in an increase in criminal activity and anti-social behaviour which would place a further burden on the board as it seeks to manage the resources available against the needs of citizens and communities.

Key risk area 8



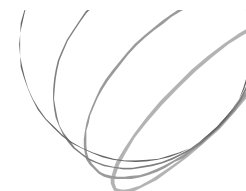
Governance and accountability

Introduction

50. An effective police authority is committed to high standards of probity and demonstrates high standards of governance and accountability. It has effective political and managerial structures and processes to govern decision-making and the exercise of authority within the organisation, supported by mature and effective relationships between members and officers. An effective police authority is committed to public performance reporting which sets out service standards which reflect the needs of local people and other stakeholders, and is balanced in its reporting of the board's strengths, weaknesses and challenges for the future.

Scrutiny

51. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account and support the modernisation agenda.
52. The Audit Committee met 3 times during the year and was generally well attended by representatives from the constituent councils. Its remit includes risk management, IT security and anti-fraud reporting and it has a wider role in terms of promoting, monitoring and developing continuous improvement.
53. In August 2010, the board reviewed its scrutiny function. It was agreed that the best means of enhancing the scrutiny function would be to extend the remit of the Audit Committee to include formal scrutiny of performance and resources. As a result, the name of the committee has been updated to become the Audit and Scrutiny Committee. The new committee will now meet four times a year and membership will be increased to nine.
54. The remit of the Audit and Scrutiny Committee will cover four main areas:
- promotion of internal control
 - focus on audit resources
 - monitoring audit performance
 - scrutiny of performance.
55. The revised committee will retain many of the functions of the Audit Committee, including reviewing the board's annual financial statements and the ISA 260 (Report to those charged with governance) letter. In addition, monitoring and review of internal and external audit plans and reports, including recommendation and action points, will remain under the overall control of the Audit and Scrutiny Committee.



56. While the Audit Committee's remit included the review of financial statements and the ISA 260 letter, the timing of the meetings did not permit the committee to have any direct response to the issues raised in the ISA 260. I have asked officers to consider whether the timing of any September (or thereabouts) meeting of the new Audit and Scrutiny Committee could be arranged to facilitate the review of the ISA 260 in advance of the accounts being finalised.

Key risk area 9

57. Corporate governance is about direction and control of organisations. The board has assessed its own arrangements against the CIPFA/SOLACE guidance: *Delivering Good Governance in Local Government*. The assessment suggests that the board has a sound governance framework. The board has included an Annual Governance Statement for 2009/10 within the financial statements.

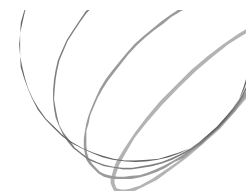
Partnership working

58. The board has demonstrated good partnership working during the year working with its constituent local authorities to support the development and implementation of the Single Outcome Agreements (SOAs). The board has sought to ensure that Community Planning Partnership priorities are consistent with those identified by Lothian and Borders Police Board. Progress against SOA outcomes is reported to the board on a regular basis through the Chief Constable's Quarterly Performance Reports.

59. Additional multi-agency working is in place, such as the Chief Officer's Group concerned with the protection of vulnerable people and the Lothian and Borders Emergency Planning Strategic Co-ordinating Group. Work with key stakeholders throughout the community ensures that the board is aiming to provide the best possible service for local residents.

Public performance reporting

60. The board publishes monthly performance reports which are available on the force's website. In addition, quarterly performance returns are submitted to the Scottish Policing Performance Framework (SPPF) covering a number of performance areas. In addition, internal management reports benchmarking the board's performance against other police boards are prepared using the SPPF data.



Governance and internal control

61. As part of our work, we took assurance from a number of the board's main financial systems. 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. We assessed the following central systems as part of our 2009/10 audit:

- Payroll
- Pension
- Accounts payable
- Fixed assets
- Budgetary control

62. We also placed reliance on the work of internal audit on the main accounting and accounts receivable systems. Internal audit assessed these systems as having satisfactory levels of control.

Data handling and security

63. Data handling and security has received increased public and media attention recently as a result of a number of high profile national incidents relating to lost or insecure data. The board shares data with a number of organisations. Information security is now a service delivery issue where a significant failure of controls could lead to loss of stakeholder confidence and opt out from services, higher compliance costs due to enforcement action, withdrawal of third party services such as payment card processing and legal fees relating to civil and criminal litigation.

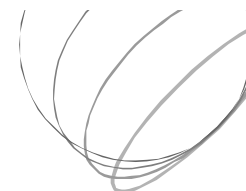
64. Following a serious security breach towards the end of 2008/09, the board has made significant procedural improvements to both physical and technical security.

Prevention and detection of fraud and irregularities

65. At the corporate level, the board has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include: a fraud policy (which includes the board's whistleblowing policy), a corporate risk register, documented standards of conduct for police officers, support staff and elected members, and defined remits for relevant regulatory committees.

NFI in Scotland

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

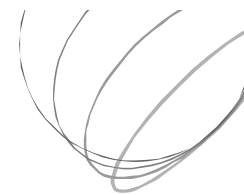


has generated significant savings for Scottish public bodies (£21 million during the 2008/09 NFI cycle and £58 million cumulatively to end March 2010). If no fraud or overpayments are identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud.

67. The most recent data matching exercise collected data from participants in October 2008 and the national findings were published by Audit Scotland in May 2010. The board investigated their matches during 2009 and identified a pension overpayment of £3k. This relatively low sum gives the board some assurance that their systems for identifying and preventing fraud are operating effectively.
68. Organisations now need to actively plan for the submission of the data for the 2010/11 data matching exercise. This includes the following key steps:
 - considering the 2008/09 national report and completion of the self appraisal checklist
 - confirming that fair processing notes are issues in line with the 2010/11 instructions
 - considering risk-based data sets
 - ensuring the upload of all relevant data on time (4 October), or shortly thereafter.

Outlook

69. We recognise the challenges posed by the SOAs. The Accounts Commission acknowledges that SOAs are still developing. At this stage in the evolution of this new approach to planning, we are interested in the processes rather than the outcomes.
70. As the SOA demonstrates, partnership working is critical to the board's success. We are developing our approach to the audit of partnerships through the new approach to best value. In the future, we shall increasingly be looking at the role of partners.



Performance management and improvement

Introduction

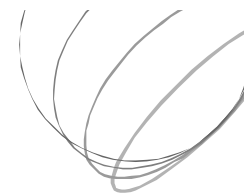
71. We believe that an effective police authority has a clear and ambitious vision for what it wants to achieve for its locality and communities to secure high quality services and effective outcomes for local people. The vision is effectively promoted by the member and officer leadership of the board and supported by staff. It is backed up by clear plans and strategies to secure improvement, with resources aligned to support their delivery. An effective police authority has a performance management culture which is embedded throughout the organisation. The authority's performance management framework is comprehensive and integrated with service planning and delivery. The authority can demonstrate significantly improved outcomes for citizens and more effective and efficient services because of its performance management arrangements.

Vision and strategic direction

72. During 2009/10 the board reviewed its Strategic Plan and undertook its annual Organisational Strategic Assessment using the National Intelligence Model to identify key business and operational priorities. As a consequence of this review, the 2010 Strategic Plan was approved by the board in June 2010.

Performance management

73. Previously, the board had a statutory duty to publish specified performance indicators (SPIs) as directed each year by the Accounts Commission. From 2009/10 onwards, police performance indicators will be published through Scottish Government's Scottish Policing Performance Framework (SPPF), which was launched in April 2007. The framework is a national model to enable policing information to be measured, reported and managed in Scotland. This allows Scottish police forces to benchmark performance and provides the opportunity for continuous improvement through the identification of best practice. The board is required to submit a number of performance indicators to the SPPF on a quarterly basis. The second SPPF Annual Report, covering 2008/09 performance information, was published in January 2010.



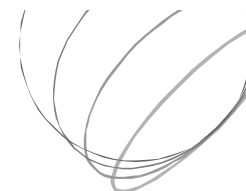
74. As part of our audit, we assessed the arrangements in place for ensuring that data submitted was reliable. We considered whether:
- there is a strategic approach to public performance reporting
 - the collection arrangements are sound and appropriate back-up is available to support the data
 - a balanced picture of performance is given.
75. We are pleased to record that the board has fulfilled its duties in relation to the collection and accuracy of data and we consider the data collection systems to be soundly based.

Best value

76. The Scottish Government issued guidance on the application of best value in police in 2003 (Police Circular 11/2003) with further guidance issued in 2007. These advise how police authorities are required to pursue best value in tandem with Chief Constables who are responsible for police operations within their force.
77. Following on from the completion of best value (BV) audits at Scotland's 32 councils, Audit Scotland has now completed the first round of police best value audits at Tayside Police and Northern Constabulary together with HMICS. The joint inspection approach examined both the police authority and the force and followed the same corporate assessment framework as applied to local authorities, ensuring consistent application of BV principles across sectors.
78. Lothian and Borders Police Board are anticipating a best value audit in 2010/11. As part of the preparations for this, a pre-assessment exercise was carried out in January 2010. An action plan was subsequently produced outlining activities required to improve best value in the board. Such commitment to improving best value within the council is vital considering the challenges facing the board in the coming years.

Outlook

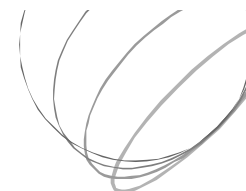
79. The long term and complex nature of many of the outcome targets of the SPPF framework pose many challenges for performance management. We recognise the challenges and whilst we have no plans to audit the outcome reports in 2010/11, we will consider the systems the board has in place to monitor progress and take remedial action.



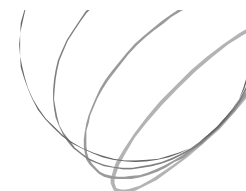
Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	20	<p>Capital reserves</p> <p>The capital reserves should be fully reviewed to ensure they reflect the correct accounting entries.</p> <p><i>Risk. There is a risk that the capital accounting reserves are incorrectly stated.</i></p>	As part of the IFRS restatement work the capital reserves will be fully reviewed and incorrect entries will be amended to ensure capital accounting reserves are correctly stated.	Head of Finance	December 2010
2	21	<p>SPSA balances</p> <p>At the year end a number of balances were held on behalf of Lothian and Borders Police Board by the SPSA but which had not been accounted for in the board's financial statements. The process for agreeing balances requires clarification and simplification.</p> <p><i>Risk. Officers from both the board and SPSA should discuss and agree on the process for agreeing year end balances.</i></p>	Meetings have been arranged with the SPSA to review transactions being processed as part of the ICT service provision. A process will be developed with the SPSA to ensure that they allocate expenditure to the correct subjective code to enable the Board to adopt the balances within the financial statements.	Head of Finance	March 2011
3	22/23	<p>Accounts preparation</p> <p>Working papers should be compiled at the same time as the financial statements are prepared. The completion of the SORP disclosure checklist will assist in ensuring compliance and alignment with the SORP.</p> <p><i>Risk. The audit is delayed. The financial statements may not be SORP compliant.</i></p>	Year-end workshop to be held to communicate to staff the need for detailed working papers to be produced to assist the audit process. This will emphasise the importance of completion of the disclosure checklist to ensure compliance with the SORP.	Head of Finance	March 2011



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
4	26	<p>IFRS adoption</p> <p>Local government will move from UK GAAP to IFRS based accounting in 2010/11. It is important that the board continues to develop policies and procedures to ensure that the financial statements for the year are fully IFRS compliant.</p> <p><i>Risk. The necessary management information processes may not be in place to generate IFRS compliant financial statements.</i></p>	<p>The Board is working in partnership with CIPFA/PWC to ensure that all the required policies and procedures are developed to issue IFRS compliant financial statements for 2010/11. A project plan is in place to deliver the re-statement of the 2009/10 accounts.</p>	Head of Finance	January 2011
5	27	<p>Carbon trading</p> <p>The board are required to purchase and account for carbon credits to count for non transport related energy use.</p> <p><i>Risk. The board may not have the relevant monitoring systems in place to be able to accurately account for carbon credits.</i></p>	<p>Report issued to the Board outlining the impact of the carbon reduction commitment. The Board has set up a project team to deal with this to ensure that suitable systems are in place to accurately account for this.</p>	Head of Central Services/Head of Finance	March 2011
6	43	<p>Asset management</p> <p>The board should review the findings of Audit Scotland's report <i>Asset management in local government</i> and assess its own asset management processes against the findings.</p> <p><i>Risk. The board's assets may not support the delivery of effective services and the achievement of best value and continuous improvement.</i></p>	<p>Asset Management is key to service delivery and the Board's Corporate Asset Management Plan was published in June 2010. Officers will review the Board's plan on an annual basis to ensure best value and continuous improvement is achieved.</p>	Head of Central Services/Head of Finance	January 2011



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
7	44	<p>Asset register</p> <p>The board should implement a more sophisticated asset register to ensure that they are able to keep an up to date, accurate record of all their assets and associated transactions within the financial statements.</p> <p><i>Risk. Without a reliable and accurate asset register, the board run the risk of being unable to demonstrate sound asset management. Asset values may not be properly recorded.</i></p>	<p>The need for a more sophisticated asset register is recognised and the Board is currently providing the SPSA with the specifications to provide a suitable system.</p>	Head of Finance	March 2011
8	49	<p>Future funding and efficiencies</p> <p>The board needs to plan for reduced resources and possibly increased demand for services as a result of the economic recession.</p> <p><i>Risk. Savings and efficiency gains are not realised leading to service cuts and a failure to deliver continuous improvement.</i></p>	<p>It is acknowledged that future funding levels will be extremely challenging. In order to achieve the required efficiencies while still providing the same level of service delivery the Transforming the Service Project has been initiated. The project is reviewing all aspects of the service identifying cashable savings and efficiencies that can be utilised to bridge the funding gap. The project board has in place governance arrangements that are being adhered to in order to minimise the risk of cashable savings not being realised.</p>	Deputy Chief Constable	March 2011
9	56	<p>Audit and Scrutiny</p> <p>The dates for the new Audit and Scrutiny Committee should be considered to ensure that the committee is able to consider the external auditors report and ISA 260 letter.</p> <p><i>Risk. The new Audit and Scrutiny Committee is unable to fulfil its remit properly.</i></p>	<p>Schedule of meetings for new Audit and Scrutiny Committee being developed.</p>	Clerk to the Board	January 2011