NOT PROTECTIVELY MARKED – for public release **Agenda Item No.**

JOINT INDEPENDENT AUDIT COMMITTEE
5 JUNE 2014

SUBJECT	**FINANCIAL STATEMENTS 2013/14**
REPORT BY	**CHIEF FINANCE OFFICER AND FORCE CHIEF FINANCE OFFICER**
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SUMMARY AND PURPOSE OF REPORT To present draft Financial Statements for 2013/14 in a format which reflects CIPFA guidance in relation to the 2013/14 accounts and the Audit Commission's interpretation of that guidance. The Committee will be asked to review the completed Financial Statements for 2013/14 at its meeting on 17 June.	
RECOMMENDATION	*That the format of the draft Financial Statements 2013/14 be considered.*

A. SUPPORTING INFORMATION

2012/13 Statements

1. The Financial Statements for last year, 2012/13, were prepared on the basis of the then guidance provided on applying the Code of Practice on Local Authority Accounting in the United Kingdom, specifically the Police Local Authority Accounting Panel (LAAP) Bulletin 95 "Accounting for the Impact of Police Reform – the Accounting Arrangements for the Transfer of Functions to the Police and Crime Commissioner."

2. This required separate statements for the Commissioner and for the Chief Constable and a consolidated group statement. In Lincolnshire, the Chief Constable's statements included a Movement in Reserves Statement, Balance Sheet and Cash Flow Statement which all showed nil balances. An Operating Cost Statement for the Chief Constable presented police officer salary costs as a formal statement of accounts.

Latest Guidance

3. New guidance was issued in March 2014 in LAAP Bulletin 98A "Closure of the 2013/14 Accounts in the Single Entity Financial Statements of Police and Crime Commissioner and Chief Constable". The LAAP is the relevant source for guidance on the interpretation and application of the Code of Practice and LAAP Bulletin 98A provides guidance which should be

followed unless there are reasonable grounds for not doing so. A copy of this bulletin is attached at Appendix A to this report.

4. The Audit Commission issued an Audit Policy Briefing (APB) on 28 April giving "Guidance on the audit of the single entity accounts of the office of the Chief Constable and the office of the Police and Crime Commissioner for 2013/14." The Audit Policy Briefing sets out the Commission's view on the "reasonable interpretation" of the application of LAAP Bulletin 98A to police body accounts. A copy of this guidance is attached at Appendix B to this report.

5. The Audit Commission's guidance is generally clear particularly on the minimum requirements which auditors should consider in giving their audit opinion. For example, in relation to the recognition of income and expenditure, the APB states that "there cannot be a situation where the Comprehensive Income and Expenditure Statement of the Chief Constable or the Police and Crime Commissioner have nothing but zero entries."

Impact

6. After review of the guidance and following discussions with KPMG, the appointed auditor to the PCC and CC, the impact of these changes on the format/content of the accounts may be summarised as:

- Statutory changes and elements of substance over form emphasised in LAAP 98A mean that all the costs of supporting operational policing will need to be included in the CC's accounts. This includes all police staff and other costs incurred in the delivery of operational policing.
- CIPFA has concluded that the CC is acting as principal in delivering operational policing rather than as an agent of the PCC.
- Auditors will have to consider as part of their audit the response of PCC's and CC's in preparing their accounts in the light of the guidance.

7. The Chief Finance Officers have concluded that, in order to comply with CIPFA guidance, the financial statements for 2013/14 should be prepared on a different basis to that adopted for 2012/13. Given the timing of the guidance, this has resulted in a delay in the finalisation of the accounts and the need to have a two phase approach to the review of accounts by this Committee. The two sets of accounts attached at Appendix C and Appendix D are not complete but reflect the format of the accounts which is being adopted. Further work is required on finalising actual figures and notes (for example the accounts relating to Regional Collaboration need to be consolidated). Therefore, the purpose of this meeting is to consider the approach taken on the revised format of the accounts with a further review to concentrate on the content of the accounts to be undertaken at the meeting on 17th June 2014 when the accounts will be complete but prior to final CFO approval for audit (required prior to 30th June 2014).

8. The draft financial statements attached are intended to reflect the new guidance, in particular the LAAP Bulletin's emphasis on:

- "considering the substance of transactions in determining whether to recognise income, expenditure, assets, liabilities and reserves and not solely their legal form"; and
- the implication that "the relevant costs of operational policing need be recognised in the Chief Constable's accounts."

Approach to 2013/14

9. Evidence of the split of transactions between the two corporations sole will be required as part of the audit process, including the rationale behind any judgements made. This will be formally summarised in the accounts in the note on key judgements / estimates.

10. Materiality considerations will be required for some items of income, expenditure and the balance sheet, in particular where the approach taken is to account for the item entirely under one corporation sole and the implications for the guidance of this approach.

Income and Expenditure Account

11. Given that substance over form considerations focus on the costs consumed in delivering operational policing, the interpretation for compliance with the revised guidance is for all costs to be included in the CC's I&E statement unless there is evidence for clear control by the PCC. The following table provides a summary of the attribution of costs and the rationale.

Transaction / Finance area	2012/13 Ownership	2013/14 Ownership	Rationale
Police officers	CC	CC	Related to operational policing activities
Statutory officers	CC	CC	Force CFO is a statutory role associated with operational policing.
PCSOs / SOCOs	PCC	CC	Related to operational policing activities
Other police staff	PCC	Majority CC	All staff included in PCC controlled activities, apportioned to PCC. (This relates principally to the PCC's Office and Corporate Communications Section) All others allocated to CC.
Associated IAS19 pensions costs	PCC	CC	Currently all costs included in the CC accounts, costs associated to PCC staff considered immaterial. Can also be split on a pro-rated

			basis by staff numbers however this would be considered immaterial to the group accounts (under 1% in PCC).
Strategic partnership - G4S contract	PCC	CC	Materially all relates to operational policing. Demonstration of immateriality of PCC related costs required.
Other goods and services	PCC	CC	Expect that most of these support operational policing
Audit fee	PCC / CC	Split	Split on the apportioned basis provided by the Audit Commission.
PCC controlled expenditure (PCC and communications department)	PCC	PCC	Evidence for clear control by the PCC
Income	PCC	Split	Main funding is allocated to PCC, some trading and other income, such as for officers on secondment, allocated to CC. Intra-group funding from PCC to CC for expenditure incurred in year.

Balance Sheet

12. All assets are owned by the PCC and have been placed under the PCC's accounts. However, vehicles and operational equipment do not pass the 'substance over form' test to be purely PCC assets. These are both essential for delivering operational policing. The proposal is for these to be reflected in the CC's accounts at Fair Value. Issues considered are:

- An acceptable minimum could be to have IAS 19 balance sheet entries in the CC accounts, including accrued employee benefits such as leave and time off in lieu (TOIL) entitlements.
- May also need to have staff related tax / NI balances matched by an intra-group debtor / creditor.

Transaction / Finance area	2012/13 Ownership	2013/14 Ownership	Notes
Reserves	PCC	Split	The CC does not accumulate reserves as its spending is offset by a transfer from the PCC (see above). The

			pensions reserve will be included in the CC accounts to offset the IAS19 liability (in line with the approach taken above).
Cash	PCC	PCC	All cash remains in PCC name, in line with allocation of funding. Intra-group transfer is only to cover costs and nominally made in arrears to CC.
Non-current (fixed) assets	PCC	PCC	All assets are procured and owned by the PCC. However, their use is for the purpose of operational policing (some use of buildings and equipment for PCC admin but immaterial), and as such the fair value cost of assets is recognised as CC expenditure in the I and E. This relates to any depreciation, impairment and disposal charges.
IAS 19 pensions assets / liabilities	PCC	CC	In line with rationale above, relates to costs incurred for operational policing.
IAS 19 accrued employee benefits e.g. leave/TOIL	PCC	CC	Relates to accumulated absences for staff at yearend. As such attributed to CC, in line with the rationale above.
Intra-company debtors / creditors	n/a	CC	Where the CC has an external debtor or creditor a corresponding balance will be raised with the PCC to reflect the funding commitment in place with the PCC to cover these costs.
Other debtors / creditors including HMRC	PCC	PCC	While debtors and creditors will likely relate to income and expenditure for operational policing, these debts are settled by the PCC and in reality

			reflect the nominal intra-company transfer noted above.

Cashflow Statement

13. The CC accounts include a cash flow statement. This does not include many transactions as the cash balance will always be nil as noted above, and any non-cash movements will ultimately net off against the surplus or deficit for the year.

Movement in Reserves Statement

14. As noted above the only reserves the CC will hold will be the pensions reserve to reflect the IAS19 pension liability and the IAS19 employee benefits accrual, both of which are accumulated for operational policing costs.

Notes to the Accounts

15. The CC accounts have been prepared on the basis outlined above, and as such all notes considered applicable have been included in the draft accounts. The PCC accounts notes have been prepared on the basis consistent with last year, with most notes at a group level. It may be appropriate to disaggregate PCC balances in selected notes to provide additional clarity on the 2013/14 split.

Prior Period Adjustments

16. The material changes described above are likely to come from changes to the 'key judgements' policy and so will lead to prior period adjustments i.e. the 2012/13 accounts will be prepared on the same basis for comparability purposes.

Conclusions

17. The main conclusions are as follows:
    - Full cost of operational policing will be reflected in the CC I&E Statement.
    - There will be some associated balance sheet entries, particularly IAS 19.
    - Materiality is a guiding factor, leading to compliance with Audit requirements but not over-complicating accounts for little additional benefit to the end-user.

18. The approach outlined above has been adopted for the first draft accounts provided. Confirmation and clarification of any changes will be undertaken in advance of production of a revised draft set for the JIAC meeting on 17 June.

B. FINANCIAL CONSIDERATIONS

The financial statements show the PCC's and Chief Constable's stewardship for the financial year 2013/14.

C. LEGAL AND HUMAN RIGHTS CONSIDERATIONS

The statements are prepared so as to comply with all statutory requirements and guidance.

D. PERSONNEL, EQUAL OPPORTUNITIES AND DIVERSITY ISSUES

(Including any impact or issues relating to Children and Young People.)

None.

E. REVIEW ARRANGEMENTS

The financial statements will be reviewed by this Committee at its meetings on 17 June and 3 September 2014. The statements are subject to external audit.

F. RISK MANAGEMENT

There are risks in ensuring that the statements and disclosures comply fully with statutory requirements and guidance, and their interpretation. The closure of accounts process includes internal checks on compliance. The external auditor will also consider compliance with statutory requirements and guidance.

G. PUBLIC ACCESS TO INFORMATION

Information in this report along with any supporting material is subject to the Freedom of Information Act 2000 and other legislation.