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JOINT INDEPENDENT AUDIT COMMITTEE
24 November 2015

SUBJECT	**REVIEW OF ACCOUNTING POLICIES**
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SUMMARY AND PURPOSE OF REPORT To update the Committee on the 2015/16 accounting policies, propose the methodology for the preparation of the draft statements and describe the statutory environment for 2015/16.	
RECOMMENDATION	That the Committee: 1. Review and note the accounting policies for 2015/16 attached at appendices 1 and 2. 2. Note the proposed accounting methodology for the 2015/16 accounts as described in section 3. 3. Note the updates on the statutory environment and assumptions as described in section 4.

A. SUPPORTING INFORMATION

1. Introduction

1.1 Accounting policies are required for the accounts of the PCC group, the PCC and the Chief Constable. These policies describe the accounting practices used to produce the respective statements of accounts. They are included as the first note to the financial statements for the Group, the PCC and the Chief Constable accounts.

1.2 As the PCC Group accounts contain most of the transactions relating to assets and liabilities, many policies referred to below mainly relate to that set of accounts and are not applicable, and therefore excluded, from the Chief Constable accounts.

1.3 This report details the changes to policies, the key aspects in the methodology to deliver the timetable and updates on the statutory environment and assumptions.

2. Changes to Policies

2.1 The proposed set of accounting policies for the PCC Group and Chief Constable are attached at Appendices 1 and 2 respectively. The following points are for noting:

IFRS 13 – Fair Value Measurement

2.2 The 2015/16 Code includes specific provisions for the adoption of the measurement requirements of IAS 16 Property, Plant and Equipment, effectively this takes operational property, plant and equipment outside the scope of IFRS 13. In essence, local authorities accounting policies on IAS 16 should continue to include relevant

detail in relation to the valuation techniques used in measuring property, plant and equipment under current value.

Annual Improvements to IFRSs 2011 – 2013 Cycle

2.3 These amendments to IFRS were adopted by the European Union and therefore apply to the 2015/16 Code. However, there are no direct amendments to the Code as the transactions to which these amendments apply are not significant issues or frequent transactions for local authorities.

IFRIC 21 Levies (i.e. levies imposed by governments)

2.4 In accordance with the consultation proposals the Code includes appropriate reference to the application of IFRIC 21 Levies. However it is not anticipated at this stage (until more information becomes available) that this will lead to a change in accounting policies for the PCC Group or the Chief Constable.

Component Accounting

2.5 The Code requires that:

- Land and buildings should be accounted for separately;
- Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

2.6 Currently components are recognised for assets with a total value of over £500k, with the PCC's external valuer of assets providing high level estimates for breakdowns of component costs and lives. While this approach has been approved through the 2013/14 audit process, a recommendation has been made that the PCC Group continue to move to a more comprehensive and detailed process for identification and costing of component assets. It is currently planned that this will take effect from the next full revaluation of land and buildings due for the 2016/17 accounts. The full Componentisation Policy is included at Appendix 3.

3. Proposed methodology for the 2015/16 accounts

PCC and Chief Constable Split of Transactions

3.1 The current methodology for the preparation of the 15/16 accounts continues the 2014/15 approach agreed with the external auditor for splitting transactions between the PCC and Chief Constable. The PCC generally owns the assets and liabilities of the PCC Group, receives the majority of Government Grant income and in turn provides funding to the Chief Constable for it to deliver its operational obligations. However, it should be noted that whilst the PCC Group split out the pension transactions on the Balance Sheet between the PCC and the Chief Constable, it did not do this for the CIE&S in 2014/15 as it was not considered material. These transactions will be split out in the 2015/16 accounts in both the Balance Sheet and the CIE&S as recommended by the external auditor.

Schedule for production of draft accounts

3.2 A draft timetable for the production of draft accounts:

- Interim audit on the 10 month accounts to 31 January 2016
- June 2016 – JIAC working group review draft accounts for PCC Group, PCC and Chief Constable
- June 2016 – Publication of draft accounts for public inspection
- June 2016 – Year-end audit of the financial statements
- July 2016 – agreement of audit adjustments and revision of the accounts
- July 2016 – Committee review and approve final accounts

3.3 In order to facilitate the continuing earlier production of the yearend accounts and to address issues that occurred in 2014/15, a number of changes to the production of the accounts have been agreed for 2015/16:

Audit of the 10 Month accounts

3.4 There is more focus on the month end each month to ensure that the management accounts are as comprehensive as possible. Some transactions however are only carried out at year end and it is envisaged that to achieve early closedown a full year end close, where appropriate and possible, will be carried out for January 2016.

3.5 A request has been made for the interim audit to be carried out on the 10 month accounts which will provide a more productive audit, allow feedback on the changes implemented and the additional time to make any adjustments.

Regional accounting arrangements

3.6 The figures provided for Lincolnshire PCC's share of the regional operations are incorporated into the financial statements. The completion and production of these figures are outside of the PCC's control and as such can cause delays in the consolidation process for the accounts. To avoid delays and ensure a consistent approach in the production of the accounts for 2015/16, initial draft accounts will exclude the regional figures.

3.7 This means that income and expenditure will exclude the regional transactions for the year and the Balance Sheet will roll forward all 14/15 balances without adjusting for 15/16 changes to assets, liabilities and reserves. The balances will then be consolidated once all figures have been submitted as final by the region. The net assets for the region in 14/15 were £1.5 million and as such are not considered sufficiently material to delay the production of the draft accounts for review.

4. Updates on the Statutory Environment and Assumptions

Materiality threshold for Lincolnshire PCC and Chief Constable

4.1 Financial statements present a true and fair view. Items which are not material do not require disclosure in the financial statements.

4.2 The de minimis levels remain unchanged however they are included below for review (copies of the full policies are included in Appendices 4 and 5):

Policy Area	De minimis	Rationale
Yearend accruals	£5,000	Budget holders can identify accruals to any level they wish but this de minimis allows them to focus on items that could materially affect individual budgets if they wish.
Inventory	£5,000	The de minimis limits the time consuming counting of low volume stock which won't be material to the financial statements if charged to revenue. Most stock relates to diesel, vehicle parts and stores balances.
Capitalisation of Property, Plant and Equipment	£10,000	Assets which meet the £10k de minimis level and also meet the other capitalisation criteria will be treated as capital. The PCC retains the discretion to consider capitalisation of other expenditure on a case by case basis, in particular where equipment with a life of more than a year is purchased in bulk as part of a specific programme.
Componentisation of Property, Plant and Equipment	£500,000	Before the next full revaluation in 2016/17 components of property will only be recognised if they are considered to have a material impact on the fixed asset register. From the next full revaluation componentisation will be considered as part of the valuation process.
Contingent liabilities	£100,000	This allows the Group to identify any potential liabilities that will likely be material to the future financial position.

4.3 The external auditor will have its own materiality level for the purposes of its audit, to both direct its audit approach and when considering whether or not to report on audit adjustments identified. It is likely that the PCC and Force's materiality will be lower than the auditors.

4.4 It is considered that the PCC Group, the PCC and Chief Constable should not adopt a specific materiality figure in the preparation of its accounts but considers each area based on the nature of the transaction or disclosure in question. This will help inform internal considerations about the application of policies and accounting standards where doing so will not misrepresent the Group's position.

Assumptions used in the IAS19 pension disclosure

4.5 IAS19 - Employee Benefits is one of the financial reporting standards that the PCC and Chief Constable must comply with when producing the Annual Accounts. IAS19's basic requirement is that an organisation should account for retirement benefits when they are committed, irrespective of when they are paid.

4.6 To calculate the cost of earned benefits for inclusion in the accounts, the scheme actuary, Hymans Robertson, uses certain assumptions to reflect expected future events which may affect those costs. The assumptions provide the best estimate of the future cash flows that will arise under the scheme liabilities. Any assumptions that are affected by economic conditions should reflect market expectations at the balance sheet date.

4.7 The PCC Group's net Pension Liability as at 31 March 2015 was calculated at £1,317m. Given the material nature of the liability on the Group Balance Sheet it is important that the PCC group is supportive of the assumptions being made by the actuary in their calculations. This year's net position will be affected by the assumptions used, but does not immediately change ongoing revenue costs as their effect is reversed out of the accounts.

4.8 The calculated costs and the underlying assumptions, based upon the advice of the actuary and the administering authority (Lincolnshire County Council for the LGPS) will be used in preparing the PCC group's 2015/16 Accounts. The value of the

Pension Funds' assets and liabilities are heavily dependent on the underpinning assumptions. The employer is ultimately responsible for the assumptions used.

4.9 The assumptions for 2015/16 have not been released for either the LGPS or the Police Pension, they will be released early in 2016 and provided to the Committee at the meeting subsequent to that. The principle assumptions used for the 2014/15 accounts are outlined below:

	Local Government Pension Scheme		**Police Pension Scheme**	
	2013/14	**2014/15**	**2013/14**	**2014/15**
Long term expected rate of return on assets in the scheme:				
Equity investments	4.3	3.3	n/a	n/a
Bonds	4.3	3.3	n/a	n/a
Other	4.3	3.3	n/a	n/a
Mortality assumptions	Longevity at 65		Longevity at 60	
	Years	Years	Years	Years
Longevity for current pensioners:				
Men	22.2	22.2	29.3	29.5
Women	24.4	24.2	31.5	31.7
Longevity for future pensioners:				
Men	24.5	24.5	30.9	31.1
Women	26.8	26.8	33.0	33.2
Financial assumptions	**%**	**%**	**%**	**%**
Market derived RPI	3.7	3.2	3.6	3.3
Rate of increase in salaries	4.1	3.8	3.8	3.4
Rate of increase in pensions	2.8	2.4	2.8	2.4
Rate for discounting scheme liabilities	4.3	3.2	4.3	3.2

4.10 Other demographic assumptions are used, e.g. rates of withdrawal from the scheme, number of ill-health early retirements, etc. These assumptions are based on past experience.

4.11 There are no direct financial implications as a result of this report, as it sets out the input factors that the actuary uses to calculate the pension position for the PCC and the Chief Constable under IAS 19, showing the estimated net value of the group's portion of the pension fund (assets less liabilities). Changes in assumptions will affect the net position, but this has a nil overall change in the resources available to the PCC on the Balance Sheet, and any changes to the income and expenditure statement are reversed through statutory accounting entries.

4.12 If the employer wishes to use different financial assumptions the actuary would impose additional fees.

B. FINANCIAL CONSIDERATIONS

Included within the report.

C. LEGAL AND HUMAN RIGHTS CONSIDERATIONS

The Police and Crime Commissioner and Chief Constable are required to produce accounts in accordance with, and as required by, the Accounts and Audit Regulations 2011, the Code of Practice on Local Authority Accounting 2015/16 and also the Service Reporting Code of Practice (SeRCOP).

D. PERSONNEL, EQUAL OPPORTUNITIES AND DIVERSITY ISSUES (including any impact or issues relating to Children and Young People.)

None directly identified.

E. REVIEW ARRANGEMENTS

The accounting policies will be reviewed and updated before the publication of the draft 2015/16 accounts. The committee will be made aware of any changes to policies as part of the review of draft and final accounts at future committee meetings.

F. RISK MANAGEMENT

Risks associated with the production of the Statutory Accounts are included as required on Departmental risk Registers.

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.