



**To:** Joint Audit Committee  
**From:** Chief Finance Officers, OPCC and Constabulary  
**Date:** 18 September 2013

## STATEMENTS OF ACCOUNTS 2012/13

### 1. Purpose

- 1.1 To provide a briefing and commentary on the Final Audited Accounts for 2012/13, and to present the external auditor's Audit Results Reports (ISA260) and request for Letters of Representation.

This report makes reference to the following documents which are attached:-

- Statement of Accounts 2012/13 – Police and Crime Commissioner for Cambridgeshire (the Group Accounts) – printed on light blue paper.
- Statement of Accounts 2012/13 – Chief Constable of Cambridgeshire Constabulary – printed on green paper
- Audit Results Report – ISA260 – Police and Crime Commissioner for Cambridgeshire
- Audit Results Report – ISA260 – Chief Constable of Cambridgeshire Constabulary
- Request for a Letter of Representation - Police and Crime Commissioner (and Group)
- Request for a Letter of Representation – Chief Constable

### 2. Introduction

- 2.1 When the Police Reform and Social Responsibility Act 2011 came into force on 22 November 2012 one of the key reforms was to replace Police Authorities with Police and Crime Commissioners. At the same time the Chief Constable of Cambridgeshire Constabulary was established as a separate body (a corporation sole), responsible for the operational policing of Cambridgeshire.
- 2.2 For accounting purposes, the Cambridgeshire Police and Crime Commissioner (the Commissioner) is the parent entity of the Chief Constable of Cambridgeshire Constabulary and together both corporations sole form a 'Group'.

- 2.3 For 2012/13 the accounts of the Chief Constable are, essentially, zero (organisation in existence but future risks and benefits remain with the Commissioner at this stage). However, two sets of accounts have been produced and audited.
- 2.4 The Accounts and Audit Regulations 2011 require the Chief Finance Officer(s) to sign, by 30<sup>th</sup> June, that the accounts present a true and fair view of the financial position as at 31<sup>st</sup> March. The draft accounts were submitted to the external auditor at the end of June 2013.
- 2.5 The Police and Crime Commissioner and the Chief Constable must approve their audited accounts by 30<sup>th</sup> September. This meeting is the vehicle for that approval.
- 2.6 The more familiar revenue and capital monitoring reports for 2012/13 were considered by the Police Authority's Finance and Resources Committee prior to 22 November 2012, since then the information has been received by the Finance Sub Group. Those reports provided full details of the main areas of under and over spending in 2012/13.
- 2.7 The accounting statements are based upon those outturn figures. However, because the Accounts are produced in accordance with various complex statutory and technical accounting regulations, it is very difficult to see the out-turn figures within the Comprehensive Income and Expenditure Statement. A reconciliation between the outturn figures and the 'Surplus/Deficit on Provision of Services' line on the Comprehensive Income and Expenditure Statement (page 6 of the accounts) is set out in the Table at paragraph 5.6.
- 2.8 An explanatory foreword is included with the published Statement of Accounts. The purpose of this foreword is to provide additional interpretation and briefing on the accounts, highlighting key issues for the benefit of readers.

### **3. Code of Practice on Local Authority Accounting**

- 3.1 The Statement of Accounts has been drawn up in the form prescribed by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) which constitutes 'proper accounting practice' under the terms of Section 21 of the Local Government Act 2003. The Code is updated each year to take account of changes in accounting standards.
- 3.2 There were no changes in the 2013 Code from the prior year. A description of the main statements can be found below.

#### **4. The Statement of Accounts (references here are to the Group Accounts)**

##### **Statement of responsibilities for the statement of accounts** (Accounts page 4)

4.1 This statement records the responsibility,

- of the Commissioner to appoint an officer with responsibility for the proper administration of the Group's financial affairs i.e. the CFO (OPCC);
- of the CFO to prepare the accounts in accordance with proper practices as set out in the Code of Practice, and to certify that the accounts present a true and fair view of the financial position of the Group; and
- of the Commissioner to approved the Group Accounts (and the Chief Constable to approve the Constabulary accounts).

##### **Movement in Reserves Statement** (Accounts page 5)

4.2 The surplus or deficit on the Income and Expenditure Account is subject to a number of changes in order to meet the statutory requirements set out in the Code. These changes are made through the Movement in Reserves Statement.

4.3 The net effect of the changes is to bring the accounting requirements into line with the regulations governing the setting of council tax. After making these adjustments there was surplus of £2.22m for the year to apply to the General Fund Balance. The General Fund balance at 31<sup>st</sup> March 2013 stands at £9.2m (31<sup>st</sup> March 2012 £7.0m).

##### **Comprehensive Income and Expenditure Statement** (Accounts page 6)

4.4 This statement is fundamental to the understanding of the Group's activities, in that it reports the net cost for the year of all functions for which the .Group is responsible, demonstrates how that cost has been financed from general government grants and income from local taxpayers, and the net deficit or surplus for the year. It is broadly equivalent to a company profit and loss account.

4.5 There are three distinct sections of the Comprehensive Income and Expenditure Statement:

1. The first shows the costs split into the major service areas giving the "Net Cost of Services" of £122.0m for 2012/13 (compared to £120.325m for 2011/12),
2. The second section covers items relating to the whole Group and income from local taxation (precept) and general government grants to give the "(Surplus)/Deficit on Provision of Services", which for 2012/13 was a deficit of £41.0m (£39.4m surplus in 2011/12); and
3. The final section details other gains and losses which have not been realised at the Balance Sheet date, to give a total Comprehensive Income and Expenditure deficit of £160.0m (deficit of £88.0m in 2011/12).

4. The year on year increase in the total deficit is £72m, of this £69m is attributable to changes in the assumptions underlying the present value of the pension liabilities and a slight increase in the longevity of pensioners.
- 4.6 The statutory accounts analyse the costs into a nationally specified format and include depreciation and support service costs within the net cost of services. This differs from the financial monitoring (budgetary control) reports that are prepared during the year which focus only on direct costs and income for each service area. However, both sets of figures are taken from the prime accounting record, the General Ledger, and reconcile in full:-

	£m	£m
<b>Deficit on Provision of Services</b>		-41.1
<b><i>Reversal of Statutory Items included above:</i></b>		
Depreciation/Impairment of Fixed Assets	5.0	
Capital Grants Applied	-1.6	
Collection Fund (Council Tax) Income	-0.1	
Net charges for retirement benefits under IAS 19	74.0	
		77.5
<b><i>Add back amounts required by Statute</i></b>		
Capital financing	-11.8	
Contributions +to/-from Reserves	6.8	
Employer's contributions to Pension Fund and Direct Pensions Payments	-29.2	
		-34.2
<b>Net revenue underspending</b>		-2.2
<b>Surplus/(deficit) applied to the General Reserve</b>		<b>2.2</b>

- 4.7 The Comprehensive Income and Expenditure Statement deficit is reconciled in the Movement in Reserves Statement to the statutory General Fund position.

#### **The Balance Sheet** (Accounts page 7)

- 4.8 The Balance Sheet is fundamental to an understanding of the Group's financial position at the year-end. It shows the balances and reserves and long-term indebtedness, and the fixed and net current assets employed in its operations.
- 4.9 The major components within the Balance Sheet are:
- Long-term assets: fixed assets based on current net book value - the movement will take account of acquisitions, disposals, revaluations and impairments that have occurred since the previous balance sheet;

- Current assets and current liabilities: stocks, debtors, investments, short-term borrowing, creditors and bank balances, which will be realised within one year;
- Long Term liabilities: Long-term borrowing that is required to service the Group's Capital Financing Requirement, and the liability relating to the pension scheme; and
- Reserves: these comprise the total net worth of the Group.

#### **Cash Flow Statement** (Accounts page 8)

- 4.10 This statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. For the purposes of this statement, cash is defined as cash in hand and deposits repayable on demand less overdrafts repayable on demand.
- 4.11 Management of the Group's cash flows forms an important element of the Treasury Management Strategy. The Cash Flow Statement provides an indication of the underlying financial health of the Group in the same way as it would be in a set of company accounts.

#### **Statement of Accounting Policies** (Accounts pages 9 to 19)

- 4.12 This sets out the policies adopted by the Group in preparing its accounts, which are largely determined by the Code.

#### **Pensions Account** (Accounts pages 60 to 61)

- 4.13 Following a change in the arrangements for financing police officer pensions with effect from 1<sup>st</sup> April 2006, the Commissioner maintains a Pensions Account. Note: the Police Pension Scheme and the New Police Pension Scheme are not 'funded' schemes - they remain 'pay as you go' schemes, with the Commissioner paying all retired police officers and collecting pension contributions from serving officers. The change from April 2006 is that the Commissioner makes an employers' pension contribution to the Pensions Account. All things being equal the Account will be balanced by the receipt of a top-up grant from the Home Office (or the payment to the Home Office of any surplus).
- 4.14 The Account has the legal status of a fund, for the purposes of the Local Government Finance Act 1988.

### **5. Audit of the Accounts**

- 5.1 The draft accounts were open for inspection in the four week period ending 13<sup>th</sup> September 2013. Two individuals exercised their right to inspection. The audit has been carried out by Ernst and Young and the accounts will be published on the web sites when signed off.

- 5.2 Ernst and Young's Audit Results Reports – ISA 260 on the audit of the two sets of accounts are attached. These reports must be considered by 'those charged with governance', as required by International Auditing Standard 260 (UK and I).

**NOTE: For 2012/13 'those charged with governance' are the Commissioner and the Chief Constable (each for their own set of accounts). Subject to the views of the Commissioner and the Chief Constable it would seem appropriate that the Joint Audit Committee be given this responsibility in the future.**

- 5.3 The Ernst and Young Director will take the Committee through his reports on the accounts. In summary, they are a clean bill of health and the CFOs record here their appreciation of the work of the Force Acting Head of Finance. It is expected that following final completion of the audit work the Auditor will issue an unqualified opinion on the two sets of financial statements.

## **6. Letter(s) of representation**

- 6.1 The external auditor requires a 'Letter of Representation' to be submitted to him by both the Commissioner (in respect of the Group Accounts) and the Chief Constable. This is a standard feature of the external audit arrangements for all local authorities, and has traditionally been acknowledged by the Audit Committee.
- 6.2 The requests from auditor addressed to the two CFOs are also attached. These requests will be turned into letters of representation and signed on behalf of the Commissioner and the Chief Constable by the respective CFOs.

## **7. Recommendations**

- 7.1 The Committee is asked to:-
- a) Recommend to the Commissioner and the Chief Constable, approval of their respective Statements of Account 2012/13,
  - b) Consider the ISA 260 reports from the external auditor and any actions necessary,
  - c) Recommend the Commissioner and the Chief Constable that the Joint Audit Committee becomes the group 'charged with governance' and approves future sets of accounts,
  - d) Note that the respective CFO's will sign the letters of representation on behalf of the Commissioner and the Chief Constable, and
  - e) Note that the audited accounts will be published on the respective websites.

## BIBLIOGRAPHY

Documents	Contacts	Location
Budget Report Police Authority Agenda February 2012	John Hummersone Treasurer and Deputy Chief Executive T. 077954 422740 E. <a href="mailto:john.hummersone@cambs.pnn.police.uk">john.hummersone@cambs.pnn.police.uk</a>  Niki Howard Chief Finance Officer (Constabulary) 01480 422230 <a href="mailto:niki.howard@cambs.pnn.police.uk">niki.howard@cambs.pnn.police.uk</a>	