



**To:** Joint Audit Committee  
**From:** Chief Finance Officers, OPCC and Constabulary  
**Date:** 29 September 2016

## STATEMENTS OF ACCOUNTS 2015/16

### 1. Recommendations

- 1.1 The Committee is asked to:-
- a) Scrutinise the Statements of Accounts 2015/16
  - b) Consider the ISA 260 reports from the external auditor and any actions necessary
  - c) Note the letters of representation as signed by the Commissioner and his CFO for the PCC, and the Chief Constable and his CFO for the Constabulary, and
  - d) Note that the audited accounts will be published on the respective websites.

### 2. Purpose

- 2.1 To provide a briefing and commentary on the Final Audited Accounts for 2015/16, 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 2015/16 – Police and Crime Commissioner for Cambridgeshire (the Group Accounts)
- Statement of Accounts 2015/16 – Chief Constable of Cambridgeshire Constabulary
- 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

### **3. Introduction**

- 3.1 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’.
- 3.2 The Commissioner and the Chief Constable must approve their audited accounts by 30 September.
- 3.3 The revenue and capital monitoring reports for 2015/16 were reviewed by the Finance Sub Group. Those reports provided full details of the main areas of under- and over-spending in 2015/16.
- 3.4 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 outturn 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 23 of the accounts) is set out in the table at paragraph 4.6.
- 3.5 A Preface by the Commissioner and a Narrative Report by the Commissioner’s Chief Finance Officer (“CFO”) is included with the published Group Statement of Accounts (page 1 of the accounts). Similarly, the Constabulary’s Statement of Accounts includes a Preface by the Chief Constable and a Narrative Report by the Constabulary CFO. The Narrative Report is a new requirement from 2015/16, replacing the Explanatory Foreword. Its purpose is to provide information about Cambridgeshire, including the key issues affecting the PCC and Group and their accounts, in particular a summary of the budget preparation process, financial accounts, performance information, medium term financial plans, workforce information and strategic risks.
- 3.6 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 2015/16 (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.
- 3.7 A description of the main statements can be found below.
- 3.8 One material correction has been identified during the course of the audit and the accounts have been adjusted accordingly. In 2014/15 a contingent liability was disclosed in the financial statements for the liability to the Home Office in relation to

the Milne vs GAD legal case. During the 2015/16 financial period the liabilities have been settled and the total liability was reimbursed via the Home Office for Police bodies. The amount in relation to Cambridgeshire Police is £3.867 million. This figure should have been debited to the re-measurement of the net defined benefit asset in the Comprehensive Income and Expenditure Statement. Instead the figure was debited to the financing and investment income and expenditure. This adjustment has not had an impact on useable reserves or on the bottom line and mainly relates to disclosure.

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

##### Statement of Responsibilities for the Statement of Accounts (accounts page 20)

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 21)

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 £0.4m was then applied to the new ICT Development Reserve, which is an earmarked reserve that has been created to ensure that the necessary resources are available for the replacement of the Airwaves police communications system by the Emergency Services Network. The General Fund balance at 31 March 2016 was £7.2m (31<sup>st</sup> March 2015 £7.2m).

##### Comprehensive Income and Expenditure Statement (accounts page 23)

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 £118.7m for 2015/16 (compared to £127.0m for 2014/15).
  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 2015/16 was a deficit of £34.5m (£46.8m deficit in 2014/15); 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 surplus of £147.6m (deficit of £181.6m in 2014/15).
  4. The substantial shift from deficit to surplus is caused by actuarial gains on the pension assets and liabilities of £191.9m in 2015/16 compared with actuarial losses of £145.0m in 2014/15.
- 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 records, the General Ledger, and reconcile in full:-

	£m	£m
<b>Deficit on Provision of Services</b>		-34.5
<b><i>Reversal of Statutory Items included above:</i></b>		
Depreciation/Impairment of Property, Plant and Equipment	4.1	
Revaluation losses	-	
Amortisation of Intangible Assets	0.4	
Capital Grants Applied	-1.0	
Amounts written off on disposal of Property Plant and Equipment	0.8	
Collection Fund (Council Tax) Income	0.2	
Net charges for retirement benefits under IAS 19	74.4	
		78.9
<b><i>Add back amounts required by Statute:</i></b>		
Capital financing	-2.0	
Use of Capital Receipts/Capital Carry Forward Reserves to finance capital expenditure	-2.2	
Statutory versus accruals basis of accumulated absences	0.3	
Contributions +to/-from Reserves	-0.3	
Employer’s contributions to Pension Fund and Direct Pensions Payments	-40.2	
		-44.4
<b>Net revenue underspending</b>		34.5

<b>Surplus/(deficit) applied to the General Reserve</b>		<b>(0)</b>

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

Balance Sheet (Accounts page 25)

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. A paper on use of reserves is being presented at agenda item 9 of this Joint Audit Committee meeting.

Cash Flow Statement (accounts page 26)

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 27 to 40)

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 83 to 84)

4.13 The Commissioner maintains a Pensions Account. It is worth noting that 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 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 accounts were made available for public inspection from 1 July to 11 August 2016, with notifications on the Chief Constable and Police and Crime Commissioners' websites and in the Commissioner's newsletter, informing the public of the availability of the unaudited accounts and their right to question the auditor about the accounts or make objections to the auditor. No individuals exercised their right to inspection. To date there have been no objections. The audit has been carried out by Ernst and Young and the final accounts will be published on the websites when signed off.

- 5.2 Ernst and Young's Audit Results Report (ISA 260) on the audit of the two sets of accounts is attached. The report must be considered by 'those charged with governance', as required by International Auditing Standard 260 (UK and I). Those charged with governance are the Police and Crime Commissioner, Chief Constable and the Chief Finance Officers for both the Police and Crime Commissioner and the Constabulary.

- 5.3 The Ernst and Young Executive Director will take the Committee through his report on the accounts. The audit report has identified one corrected misstatement within the accounts that was of a significance that it warranted reporting to the Audit Committee, as reported in Appendix 1 of the audit results report at agenda item 8. One unadjusted non-material issue was identified during the audit of the Cambridgeshire Pension Fund by their auditors, relating to fund asset values – further details of this item are given on page 5 of the audit results report at agenda item 8; as this issue is not material and is based on an estimation of the CPF fund assets there is no requirement for an adjustment in the financial statements. The audit identified a number of more minor misstatements and these have been corrected during the course of the audit. However, given the above, the accounts have been given a clean bill of health and the CFOs record here their appreciation of the hard work of the Finance Team. 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 the auditor – addressed to the Police and Crime Commissioner and the Chief Constable – are presented at appendix F of the audit results report at agenda item 8. These have been turned into letters of representation and signed by the Commissioner and the Chief Constable and their CFOs for the PCC and the Constabulary respectively.
- 6.3 The auditors have requested specific representations regarding the use of the work of a specialist, estimates for property, plant and equipment, pension liabilities and accrual estimates and also regarding retirement benefits.

## 7. Recommendations

- 7.1 The Committee is asked to:-
- a) Scrutinise the Statements of Account 2015/16
  - b) Consider the ISA 260 reports from the external auditor and any actions necessary
  - c) Note the letters of representation as signed by the Commissioner and his CFO for the PCC, and the Chief Constable and his CFO for the Constabulary, and
  - d) Note that the audited accounts will be published on the respective websites.

## BIBLIOGRAPHY

Documents	Contacts	Location
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