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British Transport Police Fund

**Accounts for the nine month period ended
31 March 2005**

Ordered by the House of Commons to be printed 22 June 2006

Statement of Accounts For the nine month period ended 31 March 2005

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Foreword

These audited financial statements are for the nine months ended 31 March 2005 and have been prepared using applicable accounting standards and on a going concern basis. Prior to the 1 July 2004, the British Transport Police (BTP) was part of the Strategic Rail Authority (SRA), but from this date lines of accountability were changed when the organisation became a non-departmental public body (NDPB) with the Department for Transport as sponsor. This first set of accounts, transferring all BTP assets and liabilities from the SRA, have been prepared in accordance with the accounts direction issued by HM Treasury and in accordance with section 51 of the Railways and Transport Safety Act (2003).

The accounts consist of:

Income and Expenditure Account

This provides details of the revenue expenditure of the Authority and shows how that expenditure was financed, primarily from train operating companies (TOC's) and Network Rail.

Balance Sheet

Summarises all of the assets and liabilities of the Authority and presents the Authority's position as at 31 March 2005.

Statement of Total Recognised Gains and Losses

This Statement identifies gains and losses that have occurred during the year that are not included in the Income and Expenditure account.

Cashflow Statement

This statement provides details of the inflows and outflows of cash arising from transactions from 3rd parties for both capital and revenue items.

These accounts include a comparison with the accounts for the three month period ended 30 June 2004. The prime purpose of the three month accounts was to establish the opening balances for the Authority on 1 July 2004. The transactions for this three month period form part of the former Strategic Rail Authority accounts.

Accounting policies and explanatory notes support the accounts.

Background to Organisation

The British Transport Police Authority is the national police force for the railways providing a policing service to Network Rail, rail operators, their staff and passengers throughout England, Wales, and Scotland. It is also responsible for policing the London Underground system, the Docklands Light Railway, the Midland Metro Tram system, and the Croydon tram link. Between them, these rail businesses transport over five million people per day.

The BTP can trace its history back to 1826, to the very origins of the police service in Britain. Today it is a combination of several individual railway forces, forming part of the national policing structure, whilst being sponsored by the Department for Transport. The majority of the Force's activities are similar to other police forces in respect of maintaining law and order, keeping the Queen's peace, and protecting staff and public alike.

On 1 July 2004 responsibility for BTP passed to the British Transport Police Authority, (the Authority), under Section 18 of the Railways and Transport Safety Act 2003. The Authority is

a formally constituted police authority and a Non-Departmental Public Body sponsored by the Department for Transport. Members of the Authority are appointed by the Secretary of State, and have responsibility for ensuring that the Authority fulfils its overall aim to ensure the efficient and effective policing of the railways.

Revenue Account

For the nine month period ended 31 March 2005 the Authority had a net surplus of £10.134m. However, this is before a net £11.4m has been transferred to specific reserves as follows:

Reserves	<u>£ 000</u>
(i) Working Capital Requirements	6,500
(ii) Grant to cover disputed TOC's charges	6,030
(iii) Transfer from Capital Grant Reserve	(1,135)
(iv) Revaluation	8

The first two items above match cash income received from the Department for Transport and are therefore included in the net surplus for the period. The transfer from the Capital Grant Reserve is the amortisation of capital grants received from the Department for Transport, which has been credited to the Income and Expenditure account to match the depreciation charged during the period in relation to assets acquired with the grant.

After taking into account the above transfers, the real revenue position for the nine month Period is a deficit of £1.269m.

The results for the first three months of 2004/05 report a surplus of £2.073m. Therefore the results for the twelve month period ended 31 March 2005 amount to a net surplus of £0.804m.

The General Reserve balance at 31 March 2005 was £2.047m.

Capital Account

Capital expenditure for the nine month period was fully funded by capital grants from the DfT and Home Office, including the following projects funded by specific grants:

	<u>£ 000</u>
Airwaves	614
Special Response Unit	733
Operation Donate	274

Review of Business and Developments

During the period under review, the Force has taken a lead in exploiting to the maximum the possibilities of complementary policing. On 5th January 2005, Police Community Support Officers from the Force were on operational duty for the first time. The Force has one of the best equipped counter terrorist response units in the country. The Force's Special Response Unit provides a twenty-four hour capability to deal with potential terrorist incidences, on rail and underground networks. Together with Transport for London, the Force is providing additional officers, bringing a highly visible presence to rail and underground networks. Moreover, the Force has been active in the area of diversity, hate crimes and staff assaults and was the first police force in London to switch to the new Airwave radios.

In terms of operational performance in 2004-05, BTP achieved nine out of nine of its operational targets, and in 2005/06 delivered eleven out of eleven operational targets. This is a major achievement, when one takes into account the significant extra demand arising from the requirement for counter-terrorist activity as a consequence of the July bombings in London. BTP has managed to retain a sustained counter-terrorist focus while at the same time continuing to focus effort on securing the delivery of all its operational objectives. During 2005 the Force also successfully managed a major change programme, including a move of Force Headquarters, a £4.5m project delivered on time and within budget.

The 2005 review by Her Majesty's Inspectorate of Constabulary assessed the Force to be improving in 18 out of 23 categories. This included resource management where it saw the Force as having the prospect of achieving a 'good' rating in the very near future. The HMIC saw this potential as a significant achievement given the low base from which the Force had started in this area.

BTP's operational objectives encompass a broad range of crimes, which are focused on making the railway a safer environment for all of its community. These include areas such as staff assaults, anti-social behaviour, route crime and fatality management. Performance monitoring by HMIC and other agencies show that BTP's achievements stand up well when benchmarked against other Home Office forces – for example in the key area of detecting robbery where the Force has some of the best results in the UK.

In overall operational terms, BTP reduced crime and increased the number of detections it made in 2004/05. In general resource management terms, BTP continues to produce improvements, including the reduction in sickness levels, with the Force retaining its position in the upper quartile of UK forces – a substantial shift from its position in 2001 when it was at the bottom of the lower quartile.

Going Concern

The opening balance sheet as at 1 July 2004 shows net liabilities of £98m. This is due to the full implementation of the financial reporting standard (FRS17) requiring the costs and benefits of pension schemes relevant to BTPA to be reflected in the statement of accounts. The net liability of the schemes on 1 July 2004 was £101.4m. The implementation of FRS17 was phased with full disclosure starting for the financial year 2003/04. The net pension charge during 2003/04 was £10.7m albeit offset by a pension surplus of £0.2m for the three month period 1 April to 30 June 2004.

The net liability of the scheme on 31 March 2005 was £156.5m an increase of £55.1m in the nine months from 31 July 2004. The increase is due to an actuarial loss.

The Department for Transport have confirmed that they will provide budget cover for these deficits. The cover will be provided under Annually Managed Expenditure (AME) and the costs will not have to be recovered from the rail industry. However, any further deficit arising in 2004/05 (with affect from 1 July 2004) and future years will be recovered by BTP from Police Service Agreement holders in accordance with FRS17.

The opening FRS17 liability of £101.4m is accounted for as a negative pension reserve. This sum therefore has no impact on the underlying basis for meeting the Authority's current and ongoing pension liabilities. These will be met out of the Authority's funding from TOC's. Accordingly, it has been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

The triennial valuation of both pension schemes assesses the ability of the funds to meet its current and future liabilities. Action is then taken to ensure that contributions to the funds are sufficient. This process ensures that future liabilities are met.

Post Balance Sheet Events

The London bombings of 7th and 21st July 2005 and the need for heightened security has resulted in additional costs of £3.6m. These costs were recovered from the Department for Transport before the 31st March 2006. These events have no impact on the 2004/05 accounts.

Research and Development

Research and development continues to play a vital role in ensuring that operational activities reflect the changes required by UK and world events. Ongoing development of our expertise and specialisms through exposure to terrorism encourages us to improve our operational preparedness in terms of prevention, enforcement and public reassurance. This is reflected in our continuing improved performance when measured against our targets.

Charitable and Political

The Fund makes no direct charitable or political donations. All Charitable donations are made through an independent trust, The Police Property Act Fund.

Members Interest's

The present members of the British Transport Police Authority and the Chief Officers Group are listed at the end of the Foreword.

Statement of Authority Members' Responsibilities

The Authority can have between eleven and seventeen members who represent several stakeholders and interested parties, such as the Train Operating Companies and Passenger Organisations. The Secretary of State has set the current number of members as thirteen.

The Authority has, amongst others, the following responsibilities:

- Maintain an efficient and effective police force;
- To police the railways;
- To undertake any direction given by the Secretary of State for Transport for policing the railways;
- To establish an annual policing plan plus a three year strategy plan

The Chairman, Vice-Chairman and members each have job descriptions outlining their respective roles and responsibilities within the Authority.

All members are appointed by the Secretary of State for Transport.

Auditors Details

The British Transport Police Authority is audited by the Comptroller and Auditor General who is appointed by statute and reports to Parliament. The scope of the audit is set out in the Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament, published as part of the Accounts. No other services have been provided to the British Transport Police Authority by the auditors. The auditor's fees are disclosed in Note 3 to the accounts.

Audit Committee

The Authority's Audit Committee comprises four of the Authority's members, including Sir David O'Dowd as Chair. The Committee's role is to assist the Authority's members to discharge their responsibilities for ensuring that:

- Proper accounting records are maintained to provide accurate and up-to-date information on the Authority's financial position;
- The published financial statements are a true and fair reflection of the Authority's financial position;
- Appropriate accounting policies and financial controls are in place;
- An appropriate and effective framework for identifying and managing the material risks, including disaster recovery, to the business is in place;
- A regime exists to deal with corporate governance issues.

Equal Opportunities, Disability and Employee Involvement

The Authority values its employees and recognises their role in enabling the Force to achieve its objectives. This is reflected in the Authority's commitment to effective employee communications and equal opportunities. The Force's intranet enables easy access for employees to policies, vacancies, news and other Force related information.

The Force's policy is to recruit, develop, and employ staff on a unified basis on their qualifications and experience related to the job they are to perform for the Force, regardless of sex, marital status, race, creed, nationality or disability. The Force gives full consideration to continuing the employment of staff who become disabled, providing training and career development opportunities.

During 2004/05, with the onset of new requirements under the Disability Discrimination Act (DDA), the Authority carried out a DDA survey on the accessibility of all Authority sites and began a review of policies affecting staff, officers, and applicants. The Authority also joined the Police Disability Network, part of the Employer's Forum on disability as the starting point for benchmarking its policies and practices not only against other forces but a range of public sector organisations wishing to share good practice. The Community and Race Relations Unit worked with the Royal National Institute for the Deaf on deaf awareness training and community engagement and consultation events which are set to continue into the future.

Environmental Management Policy

The Authority continuously re-develops its environmental management policies, recognising the role of business in contributing to increasing environmental awareness. The Force's policy in the period includes:

- Paper and cardboard recycling;
- Printer toner cartridge recycling;
- Disposal of items like radios and PC's through an agency that recycles where possible.

Better Payment Practice

The Authority's policy is to pay all undisputed invoices within 30 days of the invoice date in accordance with the better payment practices code.

In the period 1st July to 31st March 2005 14% of invoices were paid within 30 days. BTP is currently taking action to improve the time taken to pay invoices by setting targets for authorisation and payment of invoices within terms.

Members of the Authority and the Chief Officers Group

Listed below are the members of the Authority:

SIR ALISTAIR GRAHAM – CHAIRMAN CHAIR OF STRATEGY, BUDGET & PERFORMANCE MONITORING COMMITTEE

Sir Alistair holds the following appointments: Chairman of the Committee on Standards in Public Life; Employment Appeal Tribunal (lay member); General Optical Council Member of the Fitness to Practice Committee; Northern Chairman of Appeal Tribunal for special needs cases for the Learning and Skills Council.

Authority member responsibility: Police Service Agreements
North West Area

SIR DAVID O'DOWD CBE QPM DL CCM VICE CHAIR & CHAIR OF AUDIT & CORPORATE GOVERNANCE COMMITTEE

Sir David holds the following appointments: Consultant with Northgate Information Systems; Consultant with Tracker UK (vehicle location systems); Chairman of Northamptonshire Victim Support; Consultant with Microgen Information Systems; Trustee of the AA Motoring trust and Consultant with the Automobile Association; Consultant with the Control Risk Group; Governor of the University of Northamptonshire; visiting Professor at the University of the West of England; Police Advisor for England & Wales for the MOD Police.

Authority member responsibility: Information Systems
North West Area
Police Plan: PNC

LEW ADAMS OBE - EMPLOYEE INTERESTS

Lew is employed by the Strategic Rail Authority. He is Chair of the National Route Crime Group and a member of the pension management committee of the BTPF Superannuation Fund and a member of Friends of the National Railway Museum, York.

Authority member responsibility: Police Plan Fatalities &
Route Crime
Health & safety
Police staff training.
London North Area

MICHAEL BROWN MVO - INDUSTRY INTERESTS

Michael is an employee of London Underground Limited.

Authority member responsibility: Police Plan: Terrorism &
Hate Crime
London North Area

COLIN FOXALL CBE – APPOINTED 4th JANUARY 2005 - PASSENGER INTERESTS AND WALES

Colin holds the following appointments: Chair of the Rail Passenger Committee Wales (now the Passenger Focus, a Secretary of State appointment); Member of the Rail Passenger Council; Chairman of the RPC; Director of Radhaw Asset Assurance Limited.

Authority member responsibility: Finance
Crime Recording
Wales & Western Area

ROBIN GISBY - INDUSTRY INTERESTS

Robin is an employee of Network Rail.

Authority member responsibility: Property
Efficiency Reviews
London South Area

MICHAEL HOLDEN - INDUSTRY INTERESTS

Michael is a director and employee of South Eastern Trains Limited (a subsidiary of the SRA) and holds non-remunerated directorships in Railway Ball Limited and Railway Children Limited; both charitable organisations.

Authority member responsibility: PSA Liaison
Efficiency Reviews
London South Area

**JAMES KING - PASSENGER INTERESTS AND SCOTLAND
CHAIR OF STAKEHOLDER RELATIONS & COMMUNICATIONS STRATEGY COMMITTEE**

James is both an employee and director of Marketing Principals International Limited, and is a member of the Rail Passengers Council.

Authority member responsibility: Diversity (external)
Consultation
and communication
Scotland Area

**CHRISTINE KNIGHTS - PASSENGER INTERESTS
CHAIR OF HUMAN RESOURCES AND REMUNERATION COMMITTEE**

Christine is a member of the Rail Passenger Council.

Authority member responsibility: Human Resources
Diversity (Gender)
North East Area

**JANET LEWIS-JONES - APPOINTED 4TH JANUARY 2005 - SRA NOMINEE UNTIL 2006
RESIGNED 1ST SEPTEMBER 2005**

Janet holds the following appointments: Vice President of the British Board of Film Classification; member of the Strategic Rail Authority; Commissioner of the Postal Services Commission; Chair of the Selection Panel Glas Cymru Cyf.

Authority member responsibility: Tackling violence and hate
crime

KEITH LUDEMAN – INDUSTRY REPRESENTATIVE - RESIGNED 26TH MAY 2005

Keith is Executive Director of Go-Ahead Group Plc, title Chief Executive-Rail

Authority member responsibility: Police Service Agreements;
Best Value

SUZANNE MAY OBE - PASSENGER INTERESTS

Authority member responsibility: Police Plan: Staff Assault
Police Plan: Violence & Robbery
Member Development
London Underground Area

NICK NEWTON - SRA REPRESENTATIVE - RESIGNED 13TH SEPTEMBER 2004

Chief Executive of the SRA, and also as a director of South Eastern Trains Ltd

**WENDY TOWERS - PASSENGER INTERESTS
CHAIRMAN OF PROFESSIONAL STANDARDS COMMITTEE**

Wendy is a board member of the Security Industry Authority.

Authority member responsibility: Diversity (internal);
Professional Standards
FHQ Area

The following are the officers of the Authority:

RICHARD HEMMINGS - CHIEF EXECUTIVE AND CLERK

DEBORAH MCGOVERN - DEPUTY CLERK

ELIZABETH PIKE - TREASURER

The following are members of the Chief Officers Group:

IAN JOHNSTON CBE QPM BSc (HONS) - CHIEF CONSTABLE

ANDREW TROTTER QPM BSc (HONS) - DEPUTY CHIEF CONSTABLE

PAUL NICHOLAS QPM - ASSISTANT CHIEF CONSTABLE (OPERATIONS)

DAVID MCCALL - ASSISTANT CHIEF CONSTABLE (SCOTLAND AND COMMUNITY AFFAIRS)

PAUL ROBB - ASSISTANT CHIEF CONSTABLE (CRIME)

SUSAN BUDDEN BA (HONS) CPFA - DIRECTOR OF FINANCE AND CORPORATE SERVICES

STEPHEN THOMAS - DIRECTOR OF HUMAN RESOURCES (resigned 30 June 2005)

SIGNED

DATED

ACCOUNTING OFFICER

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

The Chief Constable is responsible to the Authority for the day-to-day operations and management of the British Transport Police Force and Fund. The Chief Constable has been appointed by the Accounting Officer of the Department for Transport, as the Accounting Officer for the British Transport Police Fund. The Accounting Officer is responsible for ensuring regularity, propriety, and good value for money in the management of the Fund.

In exercising these responsibilities the Accounting Officer is required:

- In accordance with the Financial Framework between the Authority and the Department for Transport, to meet the requirements of the Railways and Transport Safety Act (2003) and to follow the Accounts Direction.
- In accordance with the NDPB's Annual Reports and Accounts Manual and The Government Resources and Accounts Act 2000, to prepare in respect of each financial year a statement of accounts giving a true and fair view of the state of affairs and the income and expenditure of the Authority.
- To ensure that the relevant guidance for NDPB's is followed, including the NDPB Annual Report and Accounts guidance. In preparing the accounts, the Accounting Officer is required to comply with the Accounts Direction, and in particular to:
 - Observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
 - Make judgements and estimates on a reasonable basis;
 - State whether applicable accounting standards have been followed, and disclose and explain any material departures in the accounts;
- To prepare the accounts on a going concern basis.

Statement on the System of Internal Control

SCOPE OF RESPONSIBILITY

As Accounting Officer I have responsibility for maintaining a sound system of internal controls which supports the achievement of the British Transport Police Authority's policies, aim and objectives, whilst safeguarding the Authority's funds and assets, for which I am personally responsible, in accordance with the responsibilities assigned to me by the Secretary of State for Transport.

The British Transport Police Authority is a police authority, and a non departmental public body (NDPB) within the Department for Transport, and is accountable to the Secretary of State for Transport and is bound by a Financial Framework and Management Statement. The Fund was formed on 1st July 2004 under the Railways and Transport Safety Act (2003), taking on the responsibilities, assets and liabilities of the British Transport Police Committee.

The Authority presently consists of thirteen non executive members, of which at least four have knowledge concerning the interests of people travelling by rail, at least four have knowledge and/or experience in relation to providing railway services, and the other members have a knowledge of the interests of England, Wales, Scotland, the Strategic Rail Authority, and employees of those providing railway services. The Authority meets regularly to review the performance of the British Transport Police Fund against the targets set out in both the Strategic Plan and Policing Plan. A Chief Executive, a Clerk and a Treasurer have been appointed to administer the business of the Authority, providing legal and financial advice.

The British Transport Police Force is led by the Chief Constable, supported by the Chief Officers Group. The Chief Officers Group meets regularly in order to direct the running of the Force, and to monitor performance.

A revised governance structure has been developed for the new Authority and was endorsed at the first meeting of the British Transport Police Authority on 1st July 2004. This includes procedural standing orders, a code of conduct for British Transport Police Authority members and scrutiny via an Audit and Governance Committee.

The Strategic Plan, the Policing plan, and the budget are proposed by me, and decided by the Authority. These documents set out the direction of the Force, listing out a number of performance measures to ascertain whether our targets have been achieved.

The British Transport Police's revenue budget is funded directly from the rail industry by levying charges on the holders of Police Service Agreements. Most of the holders of the Police Service Agreements are required by law to enter into an agreement with the British Transport Police Authority. Accountability to the holders of the Police Service Agreements is provided through the Authority, on which there are members with knowledge and experience of those providing rail services. This is also achieved through the production of an Annual Report. Capital funding is secured via submissions to the Department for Transport, with each capital project being subject to a stringent monitoring process, conducted on behalf of the Chief Constable via the Force's Programme Board.

THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives. This means we can only provide reasonable and not absolute assurance of its effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the principal risks to the achievement of the Authority's policies, aims, and objectives, to evaluate the likelihood of those risks being realised and their impact, and to manage them efficiently, effectively and economically. The system of internal control has been under constant development and improvement during the nine month period ended 31st March 2005 and up to the date of approval of the accounts.

CAPACITY TO HANDLE RISK

The British Transport Police Authority recognises that the responsibility of risk management should be driven from the top. As a result, the Chief Officer Group and I, together with the Chief Executive and Clerk, have taken the lead on this issue.

A corporate risk management process has been introduced during the year and has been developed to improve links with the planning and delivery of the Policing and Strategic plans. This process has been endorsed by the Authority's Audit and Corporate Governance Committee, and includes a Strategic Risk Register highlighting the key risks facing the Force and the planned actions taken to manage them.

The risk management process was developed and implemented in the latter part of the period under consideration and is still evolving. Senior managers throughout the Force have received written guidance on the risk management process and have been given the authority to manage risk as part of their responsibilities.

Risk workshops have taken place, and managers have received further guidance in the identification, assessment and management of risk in order to build their risk management skills. A review of training needs is planned for 2006, as the process develops and risk management becomes embedded within the Force's procedures and practices.

A Corporate Assurance Group (CAG) was established during the period. The group is chaired by the Deputy Chief Constable, and the group's remit includes defining and guiding the risk management process, agreeing the annual Statement of Internal Control reviewing audit activity and implementing recommendations received from the Audit and Corporate Governance Committee.

A risk manager was appointed in January 2005 to oversee the risk management process for the Force. This includes regular progress updates to the Audit and Corporate Governance Committee, Corporate Assurance Group, and the Chief Officer Group.

THE RISK AND CONTROL ENVIRONMENT

The risks and the controls in place to mitigate them have been assessed through discussions and correspondence involving the Chief Officer Group, Corporate Assurance Group, senior managers and the Audit and Corporate Governance Committee.

The risks are recorded in a Strategic Risk Register, which is maintained by the Risk Manager, and reported regularly to the Chief Officer Group, and periodically to the Authority. The risk register has been reviewed and updated and specific actions identified for management to complete. The assigned risk owners, in conjunction with the Risk Manager, assess the risks and identify potential risk mitigation activities for agreement by the Chief Officer Group. The Chief Officer Group has monitored the risk exposure and additional controls have been introduced where appropriate.

The Authority is also responsible for determining the British Transport Police Authority's appetite for risk, taking into account the advice of the Chief Constable on policing matters. This was established during the period, and going forward there is an ongoing process for reviewing this, linked to the development of strategic plans.

The Audit and Corporate Governance Committee reviews the risk management strategy adopted by the Authority and the Force and in particular assesses the adequacy of internal controls operating with the key activities in relation to risk identification, assessment, response and monitoring.

Management of risk is becoming embedded in planning and delivery with the consideration of risks being a key consideration in the business planning process and decision making

throughout the year. The management of risks is linked into the objectives of senior managers and their effectiveness is monitored through the performance assessments.

During the course of 2004-05 funding has been made available to address legacy issues of competence in the BTP Finance Department. As a result of this the function of the whole department has been reviewed. There have been wholesale changes in personnel, including senior finance personnel. This should enable the Force to establish a more rigorous and effective regime of financial control, but during the interim period the Force remains at risk. To mitigate this risk high quality support has been deployed.

REVIEW OF EFFECTIVENESS

As Chief Constable and Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors, Her Majesty's Inspectorate of Constabulary plus the Chief Officers and executive managers within British Transport Police who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditor in his management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Authority, and the Audit and Governance Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

It is acknowledged that the transition for BTP from being a part of the Strategic Rail Authority (SRA) to an independent body was very problematic and was the main contributing factor in the external auditor's qualification of the Accounts. The fundamental problems related to the lack of accounting, technical and financial skills. However, this did not have an adverse impact on the operational effectiveness of the Force.

As the external auditor has issued an adverse opinion on the nine month accounts to 31 March 2005 it is even more important to continue with the current programme of improving financial systems and procedures. A full programme of improvements is highlighted in the "areas for development" section below.

The Authority is responsible for developing British Transport Police Strategy. I am responsible for determining policing policy and together with the Chief Officer Group, am responsible for the implementation of the strategic and policing plans. The Authority monitors strategic performance and the associated strategic risks. The system of internal control is enhanced further through committees of the Authority.

The Audit and Governance Committee meets four times each year. Its purpose is to advise the Authority on the discharge of its duties with regard to the Authority's financial statements and the maintenance of proper financial records and controls. The Authority has also established a Strategy and Budget Performance Monitoring Committee, whose remit includes the scrutiny of the Force's performance against the annual revenue and capital budgets, the objectives and targets set out in the annual policing plan, as well as progress against the strategic plan.

British Transport Police Authority's internal audit function was carried out throughout the year by PKF, a firm of accountants and business advisers, to the Government Internal Audit Standards. The work of internal audit spans both the Authority and the Force and is informed by an analysis of the risk to which the Authority is exposed. The annual internal audit plans are based on this analysis and approved by the Audit and Governance Committee. During the year I received a number of reports covering the financial, operational and governance activities of British Transport Police Authority.

Her Majesty's Inspectorate of Constabulary (HMIC) carries out inspections of British Transport Police on the grounds of efficiency and effectiveness and reports to the Secretary of State for Transport. This provides recommendations on best practice in policing, and internal action plans are developed in order to implement their advice.

AREAS FOR DEVELOPMENT

As a new Non Departmental Public Body the level of internal control requires significant development. Since separation from the Strategic Rail Authority (SRA) BTP has had to gear itself up to a much higher standard of internal control. The Authority is committed to meeting the challenge of bringing into operation the highest standards of accountability, internal control and propriety.

Not all elements of the current internal control structure have been in place since 1 July 2004. Management has also identified a number of areas where the standard of internal control is not sufficient to meet the requirements of a large, complex national Force.

Areas for particular development are:

- Reviewing and updating policies and procedures
- Improving the payroll system and automating the link to the new HR system
- Embedding the new, more robust procurement and purchasing arrangements
- Establishing a central record of assets that enable the Force to demonstrate good value for money in the use of assets

The Finance department has completely changed from that which existed during 2004/05. Following a major re-organisation there is a new staffing structure and new staff. Moreover an intensive programme for replacing both the payroll system and purchase/invoicing system will be completed during 2006/07. In addition there are new financial regulations in place and a plan for preparing and implementing new financial procedures will also be completed during 2006/07. Day to day operational controls have been strengthened with regular reconciliations and close monitoring of the Force's financial position. New arrangements have been introduced to ensure that accruals and other adjustments are fully evidenced. Accounting for fixed assets is now fully compliant with accounting standards and regular monitoring is in place to ensure the correct treatment of revenue and capital expenditure. Staffing reconciliations performed by areas and FHQ departments are now being centrally consolidated at FHQ. The combined impact of these developments will establish the foundation for sound financial control.

Significant improvements have already been made in a number of other areas. In particular internal control has been strengthened in relation to risk and business continuity management. Furthermore, a Programme Management Office has been established in order to ensure projects are properly managed and expected outcomes achieved.

A philosophy of continuous improvement underpins the work of the British Transport Police Authority and the Force and our internal management processes aim to identify and deliver improvements in value for money and effectiveness in policing.

SIGNED.....

DATED.....

ACCOUNTING OFFICER

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements on pages 18 to 44 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 22 to 24.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 11, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and the Secretary of State's directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and the Secretary of State's directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Authority has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implication for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 12 to 15 reflects the Authority's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all the risks and controls. I am also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

Basis of opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Authority and Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Adverse opinion

As more fully explained in my Report, my audit work has identified material errors in several areas of the financial statements. The most significant errors resulted from insufficient evidence, documentation and explanations to support individual balances and transactions; expenditure recorded in the incorrect year of account; and, expenditure of a capital nature recorded as revenue expenditure or vice versa. As a result I have concluded that there are likely to be material errors that may render the financial statements seriously misleading for the reader of the statements. The problems and errors flowed mainly from the transition to form a separate organisation in 2004 and the legacy of records and processes inherited from the predecessor organisational arrangements.

In my opinion

- in view of the effect of the material errors referred to above, the financial statements do not give a true and fair view of the state of affairs of the British Transport Police Authority at 31 March 2005 and of the surplus, total recognised gains and losses and cash flows for the year then ended. In all other respects, the financial statements have been properly prepared in accordance with the requirements of the Government Resources and Accounts Act 2000 and directions made thereunder by the Secretary of State; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Details of these matters are explained more fully in my Report at pages 45 to 53.

John Bourn
Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
Victoria, London SW1W 9SP

Income & Expenditure Account for the period ended 31 March 2005

		1 July 2004 to 31 March 2005	Restated 1 April 2004 to 30 June 2004
	Note	£000	£000
Income			
Trading income	2	101,380	31,821
Government grants	2	15,055	533
		116,435	32,354
Operating Expenditure	3	(109,559)	(30,556)
Operating Surplus		6,876	1,798
Profit/(Loss) on disposal of fixed assets		65	(1,016)
Notional cost of capital credit	4	3,042	887
Surplus/(Deficit) on ordinary activities before interest		9,983	1,669
Net Interest	11	(267)	(109)
Net Interest on Pension Scheme assets	23	3,460	1,400
Surplus/(Deficit) on ordinary activities before taxation		13,176	2,960
Taxation		0	0
Surplus/(Deficit) on ordinary activities after taxation		13,176	2,960
Reversal of notional cost of capital credit		(3,042)	(887)
Net surplus for the period		10,134	2,073

All operations are classed as continuing; there were no material acquisitions or disposals during the year.

The notes on pages 22 to 44 form part of these accounts.

Statement of Total Recognised Gains and Losses for the period ending 31 March 2005

	Note	1 Jul 2004 to 31 Mar 2005	Restated 1 Apr 2004 to 30 Jun 2004
		£000	£000
Surplus for the period		10,134	2,073
Net Gain on revaluation of fixed assets	6	23	0
Actuarial loss relating to the pension scheme	23	(55,450)	0
Total gains and losses recognised for the period		<u>(45,293)</u>	<u>2,073</u>

The notes on pages 22 to 44 form part of these accounts.

Balance Sheet as at 31 March 2005

		31 March 2005	Restated 30 June 2004
	Note	£000	£000
Fixed Assets			
Intangible assets	5	153	0
Tangible assets	6	17,539	15,973
Total fixed assets		<u>17,692</u>	<u>15,973</u>
Current Assets			
Debtors falling due within one year	7	23,950	25,676
Cash at bank and in hand	8	7,980	-
Less:			
Creditors falling due within one year	9	(25,892)	(34,182)
Net Current Assets / (Liabilities)		<u>6,038</u>	<u>(8,506)</u>
Total Assets less Current Liabilities		<u>23,730</u>	<u>7,467</u>
Creditors falling due after more than one year	10	(345)	(853)
Provisions for liabilities and charges	12	(631)	(800)
Net assets excluding pension liability		<u>22,754</u>	<u>5,814</u>
Pension liability	23	(156,510)	(101,370)
Total Assets Less Liabilities		<u><u>(133,756)</u></u>	<u><u>(95,556)</u></u>
Financed By:			
General and Other Reserves	13	(141,933)	(97,439)
Revaluation Reserve	13	(23)	0
Capital Grant Reserve	13	8,200	1,883
		<u><u>(133,756)</u></u>	<u><u>(95,556)</u></u>

The notes on pages 22 to 44 form part of these accounts.

SIGNED

DATED

ACCOUNTING OFFICER

Cash flow Statement for the period ended 31 March 2005

	Note	£000	£000
Cash flow from operating activities	8 a)		7,423
Return on investments and servicing of finance			
Interest paid	11	(94)	
Finance lease interest	11	(173)	
		<hr/>	(267)
Capital expenditure			
Payments to acquire tangible fixed assets	6	(6,073)	
Payments to acquire intangible fixed assets	5	(158)	
Sale of tangible fixed assets		127	
		<hr/>	(6,104)
Financing:			
Capital element of finance leases		(498)	
Grants Received		7,426	
		<hr/>	6,928
Increase in cash for the period			<hr/> <hr/>
			7,980

The notes on pages 22 to 44 form part of these accounts.

Notes to the Accounts

1 Statement of Account Policies

The BTPA is required to comply with the Accounts Direction from the Secretary of State for Transport which states that the BTPA's financial statements shall give a true and fair view of the income and expenditure and cash flows for the financial year plus the state of affairs as at the year end. Subject to the Accounts Direction the BTPA shall prepare accounts in accordance with:

- a) Executive Non-Departmental Public Bodies Annual Reports and Accounts Guidance;
- b) Other guidance that the HM Treasury may issue from time to time in respect of accounts that are required to give a true and fair view;
- c) Any other specific disclosures required by the Secretary of State; except where agreed otherwise by the HM Treasury, in which case the exception shall be described in the notes to the accounts.

These accounts follow the requirements of the NDPB Annual Reports and Accounts Guidance – see a) above, except that this guidance requires the use of merger accounting where there are machinery of Government changes. Using merger accounting for the creation of BTP as a separate function would have been in-appropriate as it would have had the effect of removing BTP from the whole of the SRA's financial history and incorrectly stated the Government's accounts when taken as a whole.

1.1 INTANGIBLE ASSETS

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of £1,000 or more is incurred. Except where reliable evidence of current value cannot be readily ascertained, these are restated to current value each year. Software licences are amortised over the shorter of the term of the licence or the life of the software package, which is usually five years.

1.2 TANGIBLE ASSETS

Tangible fixed assets include leasehold buildings improvements and capital works, plant and machinery, IT equipment and road vehicles required for the ongoing operations of the Force. These tangible fixed assets are valued initially at their original cost. All expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised, subject to a minimum monetary limit of £1,000, on an accruals basis in accordance with FRS 15 *tangible fixed assets*. Tangible assets have been stated at current cost using the modified historic costing indices from the National Statistics (MM17) for each category of fixed asset.

1.3 ASSETS UNDER CONSTRUCTION

Assets under construction are vehicles that have been purchased but require essential modification before they are safe and fit for purpose. The cost of the assets under construction includes both the original vehicle cost plus the cost of modification.

1.4 DEPRECIATION

Depreciation is provided on a straight-line basis over periods representing the estimated useful lives of assets. Vehicle depreciation begins at the start of the financial year following the financial year of acquisition. Depreciation for other assets commences in the accounting period following entry in service.

These useful economic lives are subject to review as appropriate. The lives used for the major categories of assets are:

- Land and buildings – 25 years
- Plant and equipment – 5 years
- Information technology – 5 years
- Road vehicles – 4 years

No depreciation is provided on capital work in progress. This predominantly relates to vehicles which are initially received with standard fittings. The cost of the base vehicle is classified as 'vehicles under modification' until all modifications are made at which point the full cost of the vehicle is capitalised.

1.5 DISPOSALS

Depreciation is charged on assets in accordance with BTP's Depreciation Policy. Vehicle depreciation is charged to the end of the year in which the vehicle is disposed. On other assets depreciation is charged up to the accounting period in which the asset is disposed. Any surplus or deficit is taken to the income and expenditure account.

1.6 INCOME

Income, net of value added tax, and government grants in relation to grant in aid are recognised as income and accounted for by applying the accruals convention, and are recognised in the period in which the services or grant are provided.

1.7 NOTIONAL COST OF CAPITAL

In accordance with the 2004/05 NDPB Accounts Guidance, a charge/credit of 3.5% of net assets/liabilities is made to the surplus/deficit on ordinary activities before interest. Notional cost of capital is added back to determine retained surplus/deficit on ordinary activities after taxation.

1.8 RETIREMENT BENEFITS

In compliance with HM Treasury guidelines these accounts comply with FRS17 - Retirement Benefits which requires a liability to be recognised for retirement benefits as they are earned, and not when they are due to be paid.

Before 1st July 2004 all past and present employees were covered either by the British Transport Police Force Superannuation Fund (BTPFSF) for police officers, which was established by deed; or the Railway Pension Scheme (RPS), a scheme setup by the Railway Pension Scheme Order (1994) for other staff.

After 1st July 2004 the employer for both sections became the British Transport Police Authority and Railway Pension Scheme members (current and past) were transferred from the British Rail section to the British Transport Police section of the Railways Pension Scheme.

Both schemes are defined benefit schemes meaning that retirement benefits are determined independently of the investments of the scheme. Under the rules of the scheme contributions are made up in either the ratio of 60:40 between employer and member respectively for the BTPFSF, or in the ratio of 40:60 between employer and member respectively in regard to the RPS.

1.9 LEASES

The Authority has a number of operating leases in respect of property and office machinery. Expenditure under operating leases is charged to the Income and Expenditure Account in the period in which it is incurred. The Authority also has a number of finance leases in respect of vehicles. The leases are carried on the balance sheet, separated into those with less than

one year remaining 1-2 years, 2-5 years and over 5 years. The interest payments applicable to these are charged to the Income and Expenditure Account.

Finance leases, which transfer to the Authority substantially all of the benefits and risks of ownership of an asset, are treated as if the asset had been purchased outright. The assets are included on the fixed asset register and the capital elements of the leasing commitments are shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged to the Income and Expenditure Account in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the useful economic life of the equivalent owned asset.

1.10 GRANTS

Grant in aid is recognised as income in the Income and Expenditure account in the period it is received. Since the 1st July 2004 capital grants have been charged directly to the grant reserve and released into the Income and Expenditure Account in line with depreciation on the grant funded asset as government grant income.

1.11 PROVISIONS

Provisions for liabilities and charges have been established in accordance with *FRS12 Provisions, Contingent Liabilities and Contingent Assets* and are based on reliable estimates of the expenditure required to settle future legal or constructive obligations that exist at the balance sheet date.

Provisions are charged to the Income and Expenditure account and are released when the transfer of economic benefit to settle the obligation has been made. The key provisions included in these accounts are for Professional Standards (ex Complaints and Discipline), Employment claims, and Public/Employee Liability.

1.12 VAT

Value added tax is included in the accounts of the Authority, whether of a capital or revenue nature, only to the extent that it is not recoverable.

1.13 INTEREST PAYABLE / RECEIVABLE

Interest payable is accrued so that the period bears the full cost of interest relating to actual borrowings during that period.

1.14 STOCK

The Fund does not currently carry any items as stocks, as all costs are charged to revenue.

1.15 RESEARCH AND DEVELOPMENT

Research and development expenditure is written off in the year in which it is incurred.

1.16 INSURANCES

BTP insures its activities by purchasing policies for motor vehicles and travel, professional indemnity, Directors and Officers liability, fidelity guarantee and natural damages and business interruption. The cost of repairs, claims for damages, are charged to the Income and Expenditure account as they occur. In the event of a material loss occurring BTP will consult with the Secretary of State about the action to be taken.

2 OPERATING INCOME

Income is shown net of value added tax and comprises income from train operating companies and Network Rail for policing and security services provided. It represents the value of services provided from the ordinary activities of the business during the year.

	1 Jul 2004 to 31 Mar 2005	Restated 1 Apr 2004 to 30 Jun 2004
	£000	£000
Police Service Agreements income	99,435	31,466
Other income	1,945	355
Grant in aid income from Department for Transport	13,069	390
Grant income from the Home Office	851	0
Amortisation of capital grants	1,135	143
Total	116,435	32,354

3 OPERATING EXPENSES

The operating surplus before interest and capital charges is stated after charging the following:

	1 Jul 2004 to 31 Mar 2005	Restated 1 Apr 2004 to 30 Jun 2004
	£000	£000
Staff costs	80,124	24,912
Supplies & Services: communications and computers	5,116	1,453
Supplies & Services: other	10,642	1,467
Premises	6,743	1,622
Depreciation	4,184	585
Transport costs	2,750	517
Total	109,559	30,556

Included in 'Supplies and services: other' is a charge of £88,000 for auditors remuneration.

4 COST OF CAPITAL CREDIT

	1 July 2004 to 31 March 2005	Restated 1 April 2004 to 30 June 2004
	£000	£000
Cost of Capital	3,042	887

In accordance with the 2004/05 NDPB Accounts Guidance, a charge/credit of 3.5% (pro-rated for 9 months) of net average assets/liabilities is made to the surplus/deficit on ordinary activities before interest. Notional cost of capital is added back to determine retained surplus/deficit on ordinary activities after taxation.

5 INTANGIBLE FIXED ASSETS

Intangible assets comprise of software licences.

	Purchased Software Licences £000	Total £000
Cost/Valuation		
At 1st July 2004	0	0
Additions	158	158
Indexation	0	0
Disposals	0	0
At 31 March 2005	158	158
Depreciation		
At 1 July 2004	0	0
Charge for the Period	5	5
Disposals	0	0
Indexation	0	0
At 31 March 2005	5	5
Net book values at 31 March 2005	153	153
Net book values at 30 June 2004	0	0
Asset Financing		
Owned	153	153
Finance Lease	0	0
Net book value at 31 March 2005	153	153

6 TANGIBLE FIXED ASSETS

Tangible fixed assets at the balance sheet date comprise the following elements:

	Land & Buildings	Plant and machinery	Vehicles	Vehicles Under Modification	IT Equipment	Total
	£000	£000	£000	£000	£000	£000
Cost/Valuation						
Gross book values at 1 July 2004	9,732	4,273	7,129	0	9,261	30,395
Write (off) / back	(574)	566	(1,969)	0	(550)	(2,527)
Restated at 1 July 2004	9,158	4,839	5,160	0	8,711	27,868
Additions	1,087	1,683	564	535	2,204	6,073
Revaluations	10	26	0	0	(67)	(31)
Disposals	0	(10)	(921)	0	(4)	(935)
At 31 March 2005	10,255	6,538	4,803	535	10,844	32,975
Depreciation						
At 1 July 2004	3,258	1,372	3,765	0	6,027	14,422
Write (off) / back	(56)	52	(775)	0	(429)	(1,208)
Restated at 1 July 2004	3,202	1,424	2,990	0	5,598	13,214
Charge for the Period	653	840	828	0	782	3,103
Disposals	0	(5)	(867)	0	(1)	(873)
Revaluation	0	5	0	0	(13)	(8)
At 31 March 2005	3,855	2,264	2,951	0	6,366	15,436
Net book values at March 2005	6,400	4,274	1,852	535	4,478	17,539
Net book values at June 2004	6,474	2,901	3,364	0	3,234	15,973
Asset Financing						
Owned	6,400	4,274	1,223	535	4,478	16,910
Finance Lease	0	0	629	0	0	629
Net book value at 31 March 2005	6,400	4,274	1,852	535	4,478	17,539

7 DEBTORS

	31 Mar 2005	Restated 30 Jun 2004
	£000	£000
Trade Debtors	21,160	22,083
Staff Debtors	164	0
Debtors due from government departments:		
Home Office	217	0
HM Customs & Excise	1	0
Debtors due from Police Authorities	88	0
Debtors due from Local Authorities	35	0
Other Debtors	553	734
Prepayments and accrued income	1,732	2,859
Total	23,950	25,676

8 NOTES TO THE CASHFLOW STATEMENT

a) Reconciliation of operating surplus to operating cash flows

	31 Mar 2005
	£000
Operating Surplus	6,876
Depreciation Charges (including adjustments)*	4,184
Amortisation	(1,135)
Decrease in debtors	1,723
Decrease in creditors (including adjustments)*	(7,207)
Increase in debtors provision	(169)
Pension charges	3,151
Net cash inflow from operating activities	7,423

* Correcting adjustments for depreciation and creditors related to historic balances when BTP was part of the SRA.

b) Analysis of changes in net funds/debt

	At 1 July 2004	Cashflow	Non-Cash Movements	At 31 March 2005
	£000	£000	£000	£000
Cash at bank and in hand	0	7,980	0	7,980
Finance Leases	(1,717)	498	0	(1,219)
Total	(1,717)	8,478	0	6,761

c) Reconciliation of net cash flow to movement in net funds/debt

	31 Mar 2005
	£000
Increase in cash in the period	7,980
Cash outflow from increase in lease financing	498
Movement in net funds/(debt) in the period	8,478
Net debt at 1 July 2004	(1,717)
Net funds/(debt) at 31 March 2005	<u>6,761</u>

9 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 Mar 2005	Restated 30 Jun 2004
	£000	£000
Trade Creditors	3,343	1,193
Accruals	12,375	11,349
Payroll	270	5,605
Revenue & Customs	7,456	4,004
Bank Overdraft	0	8,043
Staff Creditors	2	0
Creditors due to Govt. Departments:		
Department for Transport	1	0
Creditors due to local authorities	1,117	0
Creditors due to police authorities	159	0
Finance lease creditors	874	864
Deferred grants	0	2,810
Receipts in advance	134	30
Other creditors	161	284
Total	<u>25,892</u>	<u>34,182</u>

10 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	31 Mar 2005	Restated 30 Jun 2004
	£000	£000
Finance Lease Creditors	345	853

11 NET INTEREST

	1 July 2004 to 31 Mar 2005	Restated 1 April 2004 to 30 Jun 2004
	£000	£000
Interest receivable on short term deposits	0	2
Interest receivable	0	2
Interest payable on:		
Bank loans and overdraft	94	48
Leases	173	63
Interest payable and similar charges	267	111
Net Interest Payable	(267)	(109)

12 PROVISIONS

Provisions have been recognised within the accounts where:

- (i) The Board has a present obligation (legal or constructive) as a result of a past event;
- (ii) it is probable that a transfer of economic benefits will be required to settle the obligation;
- (iii) a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

	Personal Injury & Vehicle Claims 2004	Claims resulting from Complaints & Disciplinarys	Employment Tribunals	Total
	£000	£000	£000	£000
Balance at 1 July 2004	425	352	23	800
Provided in Year	232	331	48	611
Provisions not required written back	(117)	(134)	(35)	(286)
Provisions utilised during the year	(380)	(114)	0	(494)
Balance as at 31 March	160	435	36	631

Personal Injury & Vehicle Claims

This provision applies to situations where employees of the Authority or external parties are involved in incidents resulting in physical or mental injury. The majority of claims are brought by employees.

Complaints & Disciplinarys

This provision arises when a member of the public registers a complaint against the Authority. The provision is for the estimated cost of settlement.

Employment Tribunals

The provision relates to employment issues, such as unfair dismissal, discrimination, etc. The Provision covers estimated costs of any settlement and legal expenses.

13 RESERVES

	General Reserve	Revaluation Reserve	Capital Grant Reserve	Working Capital Reserve	Restricted Reserve	Pension Reserve	Total
	£000	£000	£000	£000	£000	£000	£000
Opening Balance	(3,931)	0	(1,883)	0	0	101,370	95,556
Amounts previously shown as grant creditors	(822)	0	(1,988)	0	0	0	(2,810)
Retained Profit for Period	(10,134)	0	0	0	0	0	(10,134)
Transfer to/(from) Reserve	12,848	(8)	0	(6,500)	(6,030)	(310)	0
Indexation	(8)	31	0	0	0	0	23
Grant Movement	0	0	(5,464)	0	0	0	(5,464)
Pension Movement	0	0	0	0	0	55,450	55,450
Amortisation of Capital Grant	0	0	1,135	0	0	0	1,135
Closing Balance	(2,047)	23	(8,200)	(6,500)	(6,030)	156,510	133,756

General Reserve

Represents the cumulative past surplus and deficits from the income and expenditure account.

Revaluation Reserve

This reflects the movement in fixed assets from changes in value (modified historic cost accounting).

Capital Grant Reserve

This reserve is credited with capital cash grant used to fund fixed assets and is then released to the income and expenditure account to match expenditure on these grant funded assets.

Working Capital Reserve

Grant in Aid from the Department for Transport to ensure the liquidity of BTPA.

Restricted Reserve

Represents 'Grant in Aid' from the Department for Transport to offset disputed payments by the Train Operating Companies. Any amount for repayment to the Department will not be known until the disputes are fully resolved.

Pension Reserve

This is a negative pension reserve that reflects the FRS17 pension liability.

14 CAPITAL COMMITMENTS

Capital commitments for which no provision has been made at the balance sheet date in the accounts were as follows:

	31 Mar 2005
	£000
Committed	928
Authorised but not contracted	0
Total	928

15 OPERATING LEASES

A) Rentals under operating leases	At 31 March 2005	At 30 June 2004
	£000	£000
Land and buildings	2,356	1,072
Plant and machinery	429	49
Total	2,785	1,121

B) COMMITMENTS UNDER OPERATING LEASES

Commitments under operating leases to pay rentals during the year following the balance sheet date are given in the table below, analysed according to the period in which the lease expires

Obligations under operating leases which expire:	At 31 March 2005	At 30 June 2004
	£000	£000
Within one year	229	1,156
Between one to two years	0	0
Between two to five years	542	248
Over five years	2,761	1,671
Total	3,532	3,075

16 FINANCE LEASES

The Fund's obligations under finance leases are as follows:

	At 31 March 2005	Restated At 30 June 2004
Finance leases which expire:	£000	£000
Within one year	867	864
Between one to two years	260	0
Between two to five years	92	590
Over five years	0	263
Total	1,219	1,717

17 CONTINGENT LIABILITIES

There is a contingent liability of £25,000 for complaints and disciplinary matters which are known to the Force but as yet action has not commenced.

18 LOSSES AND SPECIAL PAYMENTS

There were no losses during the period. However, there were 23 bookkeeping losses totalling £25,601.10 relating to a variety of historic items where explanations for the amounts were not readily available.

19 RELATED PARTY TRANSACTIONS

The Department for Transport as the Authority's sponsor is a related party, as is Network Rail with whom the Authority has a Police Service Agreement.

Due to its status as a national Police Force, BTPA has received grants from the Home Office, the Greater London Assembly (who sponsor Transport for London) and the Welsh Assembly and so are regarded as related parties.

Due to the national nature of its work BTPA has dealings with many Police Forces working together on training and joint operations.

Four Members of the Authority are drawn from organisations providing railway services. It therefore follows that these Members are employed by organisations that have contracts with the Authority. The corporate governance arrangements of the Authority require Members to register financial and other interests and also to disclose personal or prejudicial interest where matters are discussed at meetings at the Authority.

Also, four Members are drawn from a background which requires them to have an interest with people travelling on the railway. These Members are likely to be from rail passenger groups.

20 FINANCIAL INSTRUMENTS

FRS 13, *Derivatives and Other Financial Instruments*, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which government departments are financed, the Authority is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 applies. The Authority has very limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Authority

As permitted by FRS 13, debtors and creditors which mature or become payable within 12 months from the balance sheet date have been omitted from this analysis.

Liquidity Risk

The Authority's net revenue resource requirements are financed by resources from the Train Operating Companies, and other Government bodies. Capital expenditure is funded from Government bodies. The Authority is not exposed to significant liquidity risks.

Interest Rate Risk

One hundred per cent of the Authority's financial assets and one hundred per cent of its financial liabilities carries nil or fixed rates of interest and the Authority is not therefore exposed to significant interest-rate risk.

Foreign Currency Risk

The Authority's exposure to foreign currency risk is not significant. Foreign currency income and expenditure is negligible.

Fair Values

Set out below is a comparison by category of book values and fair values of the Authority's financial assets and liabilities as at 31 March 2005.

Primary Financial Instruments	Book Value	Fair Value
	£000	£000
Financial Assets		
Cash at Bank	7,980	7,980
Financial Liabilities		
Finance Lease Obligations	1,219	1,219
Provisions	631	631

21 London Underground Area

BTP employs police officers who work in the London Underground Area ('L' Area) of the Force. Although the Chief Constable has legal authority for the Force, the substance of this arrangement is that London Underground Limited (LUL) has operational control over the level of police services and also funds some additional police officers. The provision of a policing service to London Underground is in accordance with a separate agreement. This stipulates that LUL will indemnify BTP for all reasonable costs associated with the delivery of police services. Therefore staff costs for 'L' Area are not included as expenditure in BTPA's accounts, but are included in London Underground Limited's accounts.

All payroll and other direct costs of providing the police service are collected by BTP in an agency account and recharged on a periodic basis. In addition, an appropriate share of

overheads, borne by the Force is recovered through the 'PSA' mechanism, which is the normal mechanism for funding overland services.

The staff costs for officers and staff were £25.5m in the period 1 July 2004 to 31 March 2005 (1st quarter 2004/05; £7.4m). The average number of officers and staff employed on London Underground in the period 1 July – 31 March 2005 was 756 (1st quarter 2004-05, 685).

22 Staff & Retirement Benefits

Staff numbers and costs	1 July 2004 to 31 March 2005
	£000
A) Total staff costs consist of:	
Salaries & Wages	60,906
Social Security Costs	5,348
Other Pension Costs	10,370
Other Staff Costs	3,500
Total	80,124

Between 1 July 2004 and 31 March 2005, contributions of £16,883,000 were paid to the BTP section of the Railways Pension Scheme (BTPS) and the British Transport Police Force Superannuation Fund (BTPFSF) at rates determined by the scheme's Actuary. Employer's contributions are currently nil for the BTPS as the employer has a contributions holiday and 24% for the BTPFSF.

Sixteen persons retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to nil as no enhancement was received.

B) The average number of whole-time equivalent persons employed during the period was as follows:

Police Officers	Police Community	Police Staff	Total
2,387	80	787	3,254

C) The members of the BTPA are appointed by the Secretary of State for Transport under the Railway and Transport Safety Act. Normally the BTPA consists of 13 members all appointed by the Secretary of State in accordance with standard public appointment procedures. The BTPA is the employer of the BTP, and appoints the Chief Constable and members of the Chief Officer Group but these appointments are subject to the approval of the Secretary of State for Transport.

The following sections provide details of the remuneration and pension interests of the senior officers of the Authority.

(a) Remuneration

	1 July 2004 To 31 March 2005	Benefits in Kind (to nearest £100)
	£000	£
Members of the Authority		
Sir Alistair Graham	24	0
Sir David O'Dowd	16	0
Lew Adams	11	0
Mike Brown	10	0
James King	15	0
Christine Knights	14	0
Suzanne May	10	0
Wendy Towers	11	0
K. Ludeman	14	0
N. Newton (Resigned 12/09/04)	2	0
C. Foxhall*		
R. Gisby*		
M. Holden*		
J. Lewis-Jones*		
* No Salary Taken		
Senior Officers of the Authority		
Richard Hemmings	73	0
Deborah McGovern	42	0
Elizabeth Pike	19	700
British Transport Police Chief Officer Team		
Ian Johnston	147	7,800
Andrew Trotter	104	7,700
Sue Budden	70	1,600
David McCall	73	7,600
Paul Nicholas	76	10,100
Paul Robb	75	5,300
Stephen Thomas (Consent to disclose withheld)		

Salary

Salary includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; and any other allowance to the extent that it is subject to UK taxation.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. The benefits in kind received are healthcare and the use of a vehicle.

(b) Pension Benefits

	Real increase in pension at age 60	Total accrued pension at age 60 at 31 March 2005	CETV at 31 March 20	CETV at 30 June 2004	Real increase in CETV	Employer Contribution to nearest £100
	£000	£000	£000	£000	£000	£000
Senior Officers of the Authority						
Richard Hemmings	0.0-2.5	0.0-5.0	27	0	27	0
Deborah McGovern	0.0-2.5	0.0-5.0	25	0	25	0
Elizabeth Pike	0.0-2.5	0.0-5.0	7	7	0	0
British Transport Police Chief Officer Team						
Ian Johnston	0.0-2.5	0.0-10.0	131	100	31	0
Andrew Trotter	0.0-2.5	0.0-5.0	64	25	39	0
Sue Budden	0.0-2.5	0.0-5.0	31	31	0	0
David McCall	0.0-2.5	0.0-5.0	42	19	22	0
Paul Nicholas	0.0-2.5	55.0-60.0	1,202	1,101	101	0
Paul Robb	0.0-2.5	40.0-45.0	1,093	955	138	0
Stephen Thomas (Consent to disclose withheld)						

Pension Schemes and Benefits

Pension benefits are provided through the Railways Pension Scheme. This is established by deed and intended to be a fully funded scheme which provides benefits on a "final salary" basis at a normal retirement age of 60. An employee is eligible to retire from the age of 50, but with actuarially reduced benefits. Benefits accrue at the rate of 1/60th of pensionable salary (less an offset that represents the value of the basic state pension) for each year of service. In addition, a lump sum equivalent to 1/40th of pensionable pay for each year of service is payable on retirement. Members pay contributions of 9.2 per cent of pensionable earnings. Pension payments are increased in line with the Retail Prices Index. On death, pensions are payable to the surviving spouse at the rate of half the member's pension. On death in service the scheme pays lump sum benefit of four times pensionable pay and also provides a service enhancement on computing the spouse's pension, which depends on length of service. Medical retirement is possible in the event of ill-health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

Columns 3 & 4 of the above table show the member's cash equivalent transfer value (CETV) accrued at the beginning and the end of the reporting period. Column 5 reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The

CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to another pension scheme.

The estimated monetary value of benefits in kind does not form part of "salaries" for disclosure purposes under resource accounting.

23 Disclosure of Retirement Benefits

As part of the terms and conditions of employment of its officers and other employees, the Authority offers retirement benefits. Although these will not actually be payable until employees retire, the Authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The fund participates in three pensions schemes of which two schemes are the direct responsibility of BTPA: the British Transport Police Force Superannuation Fund (BTPFSF) for police officers and the British Transport Police Section of the Railway Pension Scheme for other staff. Both schemes cover present and past employees, which aims to be fully funded.

The third scheme is a multi-employer defined benefit scheme and as such BTP's share of assets and liabilities cannot be separately identified.

The creation of the Authority led to the transfer of scheme members from the BR section to the BTP Section of the RPS. This left 62 non active members in the BR section, who chose not to transfer. This is an open scheme. Contributions to the scheme are 9% for employees and 0% for the employer. However the sixty two members do not actually make any contribution, as they are deferred. The scheme benefit is 1/60th of salary averaged over the twelve months before they joined the BTP section or 1/40th of salary over twelve months before they joined the BTP section for each year of membership plus a separate lump sum of 1/40th of salary over the twelve months before they joined the BTP section for each year of membership. Both pension and lump sum are increased annually in line with RPI whilst in deferment.

(i) British Transport Police Force Superannuation Fund (BTPFSF)

The British Transport Police Force Superannuation Fund was established by a Trust Deed made on 30th December 1974 which amalgamated the British Transport Police Force Superannuation and Retirement Benefit Funds, which itself was established by a Trust Deed made on 1 September 1968, (the 1968 Section), and the British Transport Police Force Superannuation Fund 1970 Section, established by a Trust Deed on 5 April 1972, the 1970 Section).

The employer contribution includes the benefit support contributions received by the Government.

The BTPFSF provides benefits on a "final salary" basis at the normal retirement age of 60. Benefits accrue at the rate of one-forty-fifth of pensionable salary for each year of service. In addition, a lump sum equivalent to one thirtieth of final pay of every year of total membership is payable on retirement.

Members pay contributions of 16.0% of pensionable earnings and the employer pays one and a half times the employee contribution, being 24%.

The service cost has been calculated as the total cost (including BRASS contributions which are also included in the employer's contribution figure) less actual employee contributions. BRASS is additional voluntary contributions made by the employee.

A) Under the Trust Deed Regulations the pension fund is subject to an independent triennial actuarial valuation to determine each employer's contribution rate. An independent actuarial valuation was carried out at 30 June 2004 by Watson Wyatt. An approximate updating for the subsequent financial years to reflect known changes which have occurred has been carried out by Mercers, but as they did not have the authority to check the

figures/assumptions used by Watson Wyatt the update has been based on the 30 June 2004 FRS 17 liabilities.

The approximate employer's pension contributions for the three years from employer's contributions for 2003/04 were 19.5% of salaries; for 2004/05 were 19.5% and for 2005/06 will be 21.7%.

B) The major assumptions used by the actuary were:

	31 Mar 2005	30 June 2004
	%	%
Inflation assumption	2.9	2.8
Rate of increase in salaries	4.4	4.3
Rate of increase for pensions in payment & deferred pensions	2.9	2.8
Discount rate	5.4	5.8

C) The assets in the scheme and the expected rate of return were:

	Long term rate of return expected at 31 March 2005	Value at 31 March 2005	Long term rate of return expected to 30 June 2004	Value at 1 April 2004 to 30 June 2004
	%	£000	%	£000
Equities	7.9	463,700	8.2	422,900
Bonds	5.0	82,400	5.3	72,700
Property	6.45	45,500	6.75	41,300
Other	4.7	19,300	3.8	18,600
Total market value of assets		610,900		555,500
Present value of scheme liabilities		(765,500)		(659,300)
Pension scheme deficit		(154,600)		(103,800)
Net pension liabilities		(154,600)		(103,800)

D) Analysis of the amount charged to operations:

	1 July 2004 to 31 March 2005	1 April 2004 to 30 June 2004
	£000	£000
Current service costs	12,300	3,900
Past service costs	0	0
Total operating charge	12,300	3,900

E) Analysis of the amount credited to other finance income

	1 July 2004 to 31 March 2005	1 April 2004 to 30 June 2004
	£000	£000
Expected return on pension scheme assets	(31,500)	(10,400)
Interest on pension scheme liabilities	28,400	9,000
Net credit to other income	(3,100)	(1,400)

F) Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	1 July 2004 to 31 March 2005	1 April 2004 to 30 June 2004
	£000	£000
Actual return less expected return on pension scheme assets	26,000	3,300
Experienced gains and losses arising on the scheme liabilities	(8,900)	7,400
Changes in the assumptions underlying the present value of the scheme liabilities	(69,100)	(16,000)
Actuarial loss recognised in the STRGL	(52,000)	(5,300)

G) Movement in shortfall during the year

	1 July 2004 to 31 March 2005	1 April 2004 to 30 June 2004
	£000	£000
Shortfall in scheme at the beginning of the year	(103,800)	(109,300)
Movement in year:		
Current service costs	(12,300)	(3,900)
Employer contributions	10,400	2,700
Past service costs	0	0
Other finance income	3,100	1,400
Actuarial gain/(loss)	(52,000)	5,300
Shortfall in scheme at the end of the year	(154,600)	(103,800)

The full actuarial valuation as at 31 March 2005 showed an increase in the shortfall from £103,800,000 to £154,600,000.

H) History of experience gains and losses

	1 July 2004 to 31 March 2005	1 April 2004 to 30 June 2004
Difference between the expected and actual return on scheme assets:		
Amount (£000)	26,000	3,300
Percentage on scheme assets	4.0%	0.10%
Experienced gains and losses on scheme liabilities:		
Amount (£000)	(8,900)	7,400
Percentage of the present value of scheme liabilities	1.0%	0.0%
Total amount recognised in statement of total recognised gains and losses:		
Amount (£000)	(52,000)	5,300
Percentage of the present value of the scheme liabilities	7.0%	0.0%

(ii) British Transport Police Section of the Railways Pension Scheme (BTPS)

The Railways Pension Scheme was established by the Railways Pension Scheme Order 1994 (SI No 1433). The British Transport Police Shared Cost Section of the Scheme was established on 1 July 2004 by a Deed of Establishment and Participation between the British Transport Police Authority (the "Participating Employer") and Railways Pension Trustee Company Limited as Trustee of the Scheme (the Trustee)

This fund is open to new members.

The BTPS provides benefits on a "final salary" basis at the normal retirement age of 60. Benefits accrue at the rate of one-sixtieth of pensionable salary for each year of service. In addition, a lump sum equivalent to one fortieth of final pay of every year of total membership is payable on retirement.

Members pay contributions of 9.2% of pensionable earnings. The employer is currently on a contribution holiday so the employer's contribution is nil.

The service cost has been calculated as the total cost (including BRASS contributions which are also included in the employer's contribution figure) less actual employee contributions. BRASS is additional voluntary contributions made by the employee. Members are entitled to receive employer contributions matching their own contribution up to a set level. Currently this is being met from the sections assets and will only become payable by the employer in event of the section of the scheme having a shortfall.

A) Under the Rules and Regulations the pension fund is subject to an independent triennial actuarial valuation to determine each employer's contribution rate. An independent actuarial valuation was carried out at 31 December 2004 by Watson Wyatt. An approximate updating for the subsequent financial years to reflect known changes which have occurred has been carried out by Mercers, but as they did not have the authority to check the figures/assumptions used by Watson Wyatt the update has been based on the 30 June 2004 FRS 17 liabilities.

The employer's pension contributions for the three years from 2003-04 are nil as the employer has a contribution holiday until 31 March 2007.

B) The major assumptions by the actuary were:

	31 Mar 2005	30 Jun 2004
	%	%
Inflation assumption	2.9	2.8
Rate of increase in salaries	4.4	4.3
Rate of increase for pensions in payment & deferred pensions	2.9	2.8
Discount rate	5.4	5.75

C) The assets in the scheme and the expected rate of return were:

	Long term rate of return expected at 31 March 2005	Value at 31 March 2005	Long term rate of return expected at 30 June 2004	Value at 1 April 2004 to 30 June 2004
	%	£000	%	£000
Equities	7.9	18,740	8.2	15,900
Bonds	5.0	2,410	5.3	3,250
Property	6.45	2,000	6.75	1,740
Other	4.7	1,450	3.8	1,080
Total market value of assets		24,600		21,970
Present value of scheme liabilities		(26,510)		(19,540)
Pension scheme (deficit)/surplus		(1,910)		2,430
Net pension (liabilities)/assets		(1,910)		2,430

D) Analysis of the amount charged to operations:

	1 July 2004 to 31 March 2005
	£000
Current service costs	1,250
Past service costs	0
Total operating charge	1,250

E) Analysis of the amount credited to other finance income

	1 July 2004 to 31 March 2005
	£000
Expected return on pension scheme assets	(1,240)
Interest on pension scheme liabilities	880
Net credit to other income	(360)

F) Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	1 July 2004 to 31 March 2005
	£000
Actual return less expected return on pension scheme assets	930
Experienced gains and losses arising on the scheme liabilities	20
Changes in the assumptions underlying the present value of the scheme liabilities	(4,400)
Actuarial loss recognised in the STRGL	(3,450)

G) Movement in shortfall during the year

	1 July 2004 to 31 March 2005
	£000
Shortfall in scheme at the beginning of the year	2,430
Movement in year:	
Current service costs	(1,250)
Employer contributions	0
Past service costs	0
Other finance income	360
Actuarial gain/(loss)	(3,450)
Shortfall in scheme at the end of the year	(1,910)

H) History of experience gains and losses

	1 July 2004 to 31 March 2005
Difference between the expected and actual return on scheme assets:	
Amount (£000)	930
Percentage on scheme assets	4.0%
Experienced gains and losses on scheme liabilities:	
Amount (£000)	20
Percentage of the present value of scheme liabilities	0%
Total amount recognised in statement of total recognised gains and losses:	
Amount (£000)	(3,450)
Percentage of the present value of the scheme liabilities	13.0%

**Report of the Comptroller and Auditor General
to the House of Commons:**

**British Transport Police Fund
Accounts for the nine months to 31 March 2005**

Report of the Comptroller and Auditor General to the House of Commons: British Transport Police Fund accounts for the nine months to 31 March 2005

Introduction

1. This report describes the background and circumstances leading to the qualification of my audit opinion. The problems and errors flowed mainly from the transition to form a separate organisation in 2004 and the legacy of records and processes inherited from the predecessor organisational arrangements.
2. The British Transport Police Force (BTP) is the national police force for the railways, providing a policing service to rail operators, their staff and passengers throughout England, Scotland and Wales. BTP is also responsible for policing the London Underground, Docklands Light Railway, Croydon Tramlink and the Midland Metro. Until 30 June 2004 BTP was part of the Strategic Rail Authority, which was responsible for the activities, assets, rights and liabilities of BTP.
3. On 1 July 2004 responsibility for BTP passed to the British Transport Police Authority, (the Authority), under Section 18 of the Railways and Transport Safety Act 2003. The Authority is a formally constituted police authority and a Non-Departmental Public Body sponsored by the Department for Transport. Members of the Authority are appointed by the Secretary of State, and have responsibility for ensuring that the Authority fulfils its overall aim: to ensure the efficient and effective policing of the railways.
4. Like other police authorities and forces, BTP is subject to review by Her Majesty's Inspectorate of Constabulary (HMIC), which in 2005 reiterated its concern that the user pays principle (whereby the railway industry funds the Force) placed the Force at a considerable disadvantage as it has to rely on commercial profit margins and the market place to guarantee the investment required to develop the Force infrastructure. It concluded that this places BTP at a considerable disadvantage and is completely inconsistent with providing a high quality service.
5. In terms of operational performance in 2004-05, BTP achieved nine out of nine of its operational targets, and in 2005-6 delivered eleven out of eleven operational targets. This is a major achievement, when one takes into account the significant extra demand arising from the requirement for counter-terrorist activity as a consequence of the London July bombings. It illustrates that BTP has strong and effective management, through which it has managed to retain a sustained counter-terrorist focus while at the same time continuing to focus effort on securing the delivery of all its operational

objectives. During 2005 the Force also successfully managed a major change programme, including a move of Force Headquarters, a £4.5m project delivered on time and within budget.

6. Notwithstanding the financial management issues, BTP continues to move forward on many fronts, securing a 'good' overall grading for leadership and direction in the HMIC baseline assessment for 2005. Nothing in this report on the accounts should be read as implying an adverse comment on the operational capacity or competence of BTP as reviewed by HMIC.
7. The Authority is primarily funded by the Train Operating Companies in accordance with individual Police Service Agreements. It also received grant funding from the Department for Transport, mainly for capital expenditure. The Authority is required by the 2003 Act to maintain accounts - the British Transport Police Fund accounts.
8. The Permanent Secretary of the Department for Transport, as Principal Accounting Officer, has appointed the Chief Constable of BTP as the Authority's Accounting Officer. He is responsible to Parliament for:
 - the propriety and regularity of the resources under his control;
 - the keeping of proper accounts and records;
 - the efficient and effective use of all available resources;
 - the control and safeguarding of all assets; and
 - ensuring an adequate system of internal control.

My obligations as Auditor

9. I audit the Authority's accounts under the Government Resources and Accounts Act 2000. I am required under Auditing Standards, to obtain evidence to give reasonable assurance that the Authority's financial statements are free from material misstatement. In forming my opinion I examine, on a test basis, evidence supporting the disclosures in the financial statements and assess the significant estimates and judgements made in preparing them. In arriving at my conclusions I consider the following matters:
 - whether the Authority has kept proper accounting records;
 - whether effective systems of internal control are in place;

- whether the Authority's accounts are in agreement with the accounting records; and
- whether I have obtained all the information and explanations that I consider necessary for the purposes of my audit.

Purpose of my report

10. This report sets out why I have issued an adverse audit opinion, concluding that the financial statements for the nine months to 31 March 2005 do not give a true and fair view. This report also outlines how the Authority has addressed weaknesses in accounting and control systems.

Basis of my adverse audit opinion

11. I set out below the factors which have led me to conclude that the financial statements do not give a true and fair view and may be seriously misleading.

Material errors in the financial statements

12. Detailed audit testing of transactions and balances undertaken by my staff indicates material levels of error in operating expenditure, fixed assets, creditors and accruals. The estimated total gross level of likely error in the accounts is £5 million. The estimated net impact of these errors on the net surplus for the year of £10.1 million may be an understatement of £2.6 million.
13. The most common concerns and errors my staff identified were:
 - insufficient evidence, documentation and explanations to support some transactions, balances and other disclosures;
 - expenditure of a capital nature recorded as revenue expenditure and omitted from the balance sheet, and vice versa; and
 - expenditure recorded in the nine months to 31 March 2005 that should have been in the following year, and vice versa. These errors impact correspondingly on the 2005-06 opening balance sheet.

Significant control weaknesses

14. In several significant areas the Authority did not have sufficiently robust accounting controls to demonstrate the completeness and accuracy of transactions and balances. For example fixed assets.
15. Staff costs, at £80 million are three quarters of the Authority's gross expenditure. BTP's individual regions complete four-weekly returns of outturn and forecast expenditure against budgets, which includes staff in post and their costs. This process included a reconciliation between the staff shown on the payroll system and the actual staff employed in each Area. However these individual reconciliations were not consolidated at Force level for the nine months to March 2005, increasing the risk of accounting errors or erroneous entries on the payroll going undetected. Measures were put in place towards the end of 2005-06, designed to eliminate this risk.
16. The Authority did not have a Fixed Assets Register independent of the fixed assets transactions recorded in its accounting records, a basic control which assists with the identification and management of assets. Without a comprehensive record of its fixed assets, the Authority was unable to provide adequate assurances that the fixed assets recorded in its accounts were complete or accurate.
17. During the nine months to 31 March 2005, the Authority did not complete bank reconciliations on a monthly basis. Bank reconciliations are a fundamental and key control to match accounting transactions and balances with movements in cash. Timely completion helps identify errors whether accidental or intentional, and facilitates prompt investigation and correction. Although all bank reconciliations for the period were eventually completed satisfactorily, they were only undertaken at the end of the nine months.
18. Other controls were also inadequate, including the proper authorisation of some payments, and reconciliations for significant debtor and creditor account balances.

Incomplete draft accounts

19. The first draft accounts presented for audit at the end of June 2005 were incomplete and many notes and disclosures were either missing (for example on provisions, contingent liabilities, related parties and losses) or not disclosed and accounted for in accordance with accounting standards and government accounting requirements. Management were aware of this position. The completion accounts (to mark the last three months of the Police Committee, April to June 2004) were not finalised until June 2005. This had a

direct impact upon the preparation of the statutory accounts for 2004-05 and the Force's ability to produce these to the agreed timetable. A strategic decision was taken to present the latest available draft in June 2005, knowing that it would take further work to bring the accounts up to an acceptable standard.

20. The first draft accounts showed a net deficit of £6.4 million. The audit process clarified the accounting treatments in respect of Grant In Aid provided by the Department for Transport to cover both working capital requirements and the Force capital programme. The subsequent classification of the working capital element as income and the requirement to amortise the capital grant were the main reasons for the surplus of £9.5 million as shown in the draft accounts in February 2006. The final accounts show a surplus of £10.1 million arising as a result of final audit adjustments.

Implications for my audit opinion on the Authority's financial statements

21. As a result of the errors identified during the audit and the significant weaknesses outlined above, I have concluded that there are likely to be material errors that may render the financial statements seriously misleading. The extent and nature of the errors mean that, in my opinion, the financial statements do not give a true and fair view of the state of affairs of the Authority or of the Income and Expenditure for the nine months ended March 2005. I am, however, able to conclude positively on regularity: - that in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Impact on the 2005-06 financial statements

22. As part of the audit of the 2005-06 financial statements my staff will consider any impacts of the likely errors in the opening balance sheet, and I will report as necessary on the Authority's 2005-06 financial statements in due course.

Addressing the weaknesses in internal control

23. The Authority and the Accounting Officer are committed to the highest standards of public accountability, internal control and propriety. When BTP was part of the Strategic Rail Authority (SRA) up to June 2004, BTP was not required to produce its own statutory accounts. Its income, expenditure, assets and liabilities were reported to the SRA monthly and incorporated into the SRA's accounts. This was at a less detailed level than that required for BTP as a standalone organisation and BTP had been supported by accounting technical and finance skills in the SRA. In addition the audit of the BTP

element of the SRA account was at a much higher level of materiality than that applied to BTP as a standalone organisation. This meant that errors and adjustments that might be significant under the current regime were not identified under the former SRA arrangements.

24. The Force fully recognised that it needed to strengthen its technical accounting skills and expertise in order to meet the financial management requirements of the new organisation. The status of the Finance Department at this time reflected the lack of investment, as highlighted by the HMIC. Funding constraints meant that the project to address these issues could not begin until after the new Authority was in place. This meant that the transition to the new Authority took place with the existing BTP finance team, who remained in place to the end of the financial year March 2005. The insufficient resources within this team, in terms of capacity, skills and experience had a direct impact upon the standard of financial management in the first nine months of the Authority's existence and thus the quality of the first set of financial statements.
25. The reorganisation and restructuring of the Finance Department took place as soon as funding became available following the agreement to the supplementary budget by the new Authority in September 2004. This was part of wider review of a number of central functions, including Procurement, Fleet Management, Technology and Human Resources. The review resulted in significant changes with the majority of the existing Finance team leaving the organisation by the end of March 2005 and being replaced by suitably qualified staff in all the new posts. This process was largely complete, with the new structure and the majority of new staff in place, by the summer of 2005.
26. Throughout 2005 the Authority reviewed and updated its key systems, policies and processes, such as risk management, business continuity, procurement, HR and payroll. It has made progress in documenting key systems and introducing more robust financial management and internal control processes, for example bank reconciliations are now carried out on a weekly basis. The Authority's internal auditors have reviewed the key processes and systems. Their work shows that considerable progress has been made, but also that further improvements in the control environment are required during 2006.
27. The Authority and senior management are committed to continuing the improvement process. The new structure and the introduction of new robust period and year end processes are expected to address the main areas of error identified by the NAO during the audit. For example dedicated financial support is now provided for all budget holders in the organisation and the robustness of the four weekly reporting process for both revenue and capital expenditure, including the supporting reconciliations, has been

strengthened. Going forward, the NAO expect to be able to place reliance upon the new arrangements, along with the improved processes for accounts payable and accounts receivable, as key internal controls.

28. A specific project has been put in place to introduce robust purchase-to-pay processes that will both improve the accuracy and efficiency of transaction processing and ensure that the Force knows the extent of its financial commitments at all times. A project has also been put in place to replace the current legacy payroll system. This is being run in tandem with the implementation of a new Human Resources system which will allow for full reconciliation of payroll data to a robust and independent source.
29. The new structure identified for the Finance Department focused upon the resources and expertise required to support the organisation in a steady state. However there is a great deal of development work to complete before this is achieved. The Department has therefore been further strengthened through the introduction of a number of additional roles and the re-alignment of some current posts to ensure that these developments are successful.
30. The Accounting Officer is performance managing this process through close involvement with the Director of Finance & Corporate Services. The improvement projects in respect of purchase to pay, payroll and financial processes and procedures are being monitored by the Programme Management Office and are subject to regular scrutiny by the Programme Board under the Chairmanship of the Deputy Chief Constable.
31. The Accounting Officer has also set himself a personal action plan to ensure that proposed improvements are delivered. This plan includes:
 - Personal briefing / training in management of finance from PWC for himself and the Deputy Chief Constable who chairs Programme Board.
 - Improving awareness of key financial issues amongst Headquarters and Area staff by personal memo and personal briefing of key staff at Force Management Team meetings.
 - Personal involvement in the appointment of a new Head of Finance.
 - Personal attendance at all Audit Committee meetings.

- Monthly meetings with senior NAO officers.
- Monthly monitoring of a new action plan for the Director of Finance & Corporate Services, a plan which will be drawn up to deal with all issues in the report or the accounts for 2004/5.

32. The overall aims of this plan are to enhance a culture within BTP of financial propriety, financial control and compliance with systems, and to provide visible support for the leadership within Finance Department in their pursuit of these aims.