Report to:	**Audit Committee**
Agenda item:	**6.1**
Date:	**31 May 2012**
Subject:	**2011/12 Annual Accounts**
Sponsor:	**Interim Director of Corporate Resources**
Author:	**Head of Finance**
For:	**Information / Decision**

1. PURPOSE OF PAPER

1.1 This report presents the statutory Statement of Accounts covering the 2011/12 financial year to the Audit Committee for recommendation to the British Transport Police Authority (BTPA) following the conclusion of the external audit by the National Audit Office (NAO).

2. BACKGROUND

2.1 The Statement of Accounts for 2011/12 is attached at Annex A. It has been produced in accordance with the accounts direction issued by HM Treasury contained in the Government Financial Reporting Manual (FReM) and also in accordance with section 51 of the Railways and Transport Safety Act 2002. All Members were sent drafts of the complete set of financial statements and comments received will be incorporated in the final set presented to the Authority on 12 June.

2.2 2011/12 marks the introduction of HM Treasury's project, Clear Line of Sight which aims to align central government funding, budgets and accounts to make comparison between the three financial strands easier for users. As a Non Department Public Body BTPA is only affected by the accounts alignment strand of the project. For the first time BTPA's accounts form part of the DfT consolidated accounts as well as being a stand alone set of accounts. The consolidation requires the accounts to be published by 15 June, to ensure publication before or in conjunction with the DfT consolidated accounts.

2.3 Scrutiny by this Committee is the first step to ensuring that the BTPA meets this deadline, the next steps are for the Statement of Accounts to be recommended for approval to the BTPA and then to be signed by the Chief Executive (as the Accounting Officer) and then by the Comptroller and Auditor General, before being laid before Parliament.

3. 2011/12 AUDIT

3.1 The audit of the 2011/12 accounts is complete and the Statement of Accounts is presented to this Committee for recommendation for approval to the BTPA. The International Standard on Auditing (ISA) 260 requires the NAO to communicate certain aspects of the results of the audit to those charged with responsibility for governance. In accordance with the ISA 260, the BTPA has received a formal opinion from the NAO and their report is elsewhere on the agenda of this meeting.

3.2 There has also been liaison between the NAO and BTPA's internal auditors to ensure that where ever possible reliance can be placed on internal audit's work, and this has reduced the time required by the NAO to complete the year end audit.

4. 2011/12 FINAL OUTTURN

4.1 During 2011/12 there was very close monitoring of expenditure and income to ensure that BTP and BTPA delivered their strategic objectives within the approved budget. This was achieved via reporting and scrutiny of the year to date and full year forecast of expenditure and income against budget at four weekly Finance Review meetings chaired by the Director of Corporate Resources. The position was reported each period internally within BTP through formal reports to Programme Board and the Strategic Command Team and then on a quarterly basis throughout the year to the Finance Group and main Authority of the BTPA.

4.2 On 22 May the provisional out-turn for BTP expenditure excluding the BTPA's own costs was reported to the BTPA as net expenditure of £246,063k (a surplus against budget of £1,154k) – but noting that this was before any further technical accounting adjustments and subject to any

changes required by the NAO as a result of the audit. The Authority Finance Director reported the BTPA's own expenditure as an outturn of £1,664k, an underspend of £206k. In total the underspend for the Authority and the Force was £1,360k.

4.3 As a result of the required entries within the revenue account to comply with the relevant accounting standards (IFRS) and to make some changes required by the NAO, the Statement of Comprehensive Income (Income & Expenditure Account) in the Statement of Accounts shows a deficit of £19,013k. Table 1 below provides a reconciliation of the Management and Financial Accounts Outturns.

Table 1 - Reconciliation between Management Accounts and Financial Accounts Outturns

	£000
Management Accounts Outturn (surplus)	**1,154**
Adjust for L Area Deficit	57
L Area adjusted Surplus	**1,211**
Plus IAS 19 Pensions Adjustment	(11,610)
Less Revenue Contribution to Capital	1,004
Plus Adjustment for DfT Revenue Funding	(4,570)
Plus Reinstatement for DfT Financed Bad Debts	(2,351)
Plus Net Increase in Reserves	(2,424)
Plus Authority Surplus	(206)
Less Additional Core PSA c/fwd to 2012-13	11
Financial Accounts Out-turn (Deficit) as reported to Finance Group (22 May)	**(18,935)**
Less Reclassification of provision for payment to HMRC for pensions to a contingent liability	975
Plus Change in Accounting Policy for capital expenditure financed by non government bodies	(635)
Plus Application of indices to revalue assets (Modified Historic Cost Adjustment)	(418)
Financial Accounts Outturn (Deficit) as reported in accounts	**(19,013)**

5. CHANGE IN ACCOUNTING POLICIES

5.1 The only change in accounting policies for 2011/12 is the decision by HM Treasury to reclassify capital funding from outside central government from grant funding to income, this is a technical adjustment and does not affect BTPA's funding.

5.2 There are also two changes to the accounts format in 2011/12, the inclusion of a Sustainability Report and a Governance Statement which replaces the Statement on Internal Control.

6. FUNDING FROM DfT

6.1 The DfT funds the irrecoverable gap that has resulted from the settlement of the Judicial Review. In 2011/12 this was £5,268k.

6.2 The DfT has also provided funding to meet BTP's cost of the Olympics, £3.3m and the cost of Operation Bench £1.6m (summer 2011 public disorder). Cable theft funding of £697k relating to 2011/12 will be received in 2012/13 in accordance with government accounting policy.

6.3 A cash funding programme was agreed with DfT. Cash balances and the forecast cash flow are monitored on a regular basis to ensure that BTP always has sufficient cash to meet immediate needs.

7. IMPACT OF IAS19 ON BTPA's ACCOUNTS

7.1 The purpose of the International Accounting Standard IAS19 is to ensure that financial statements reflect the assets and liabilities arising from the organisation's pension schemes, and that the cost of providing benefits to employees is recognised in the year in which those benefits are earned. The amounts relating to pensions for inclusion in the accounts under this standard are calculated by BTP's Actuary, Mercer. These calculations have to be made as at 31 March each year and are therefore not available until after the year end.

7.2 The effects of IAS19 are shown in both the income and expenditure account and the Statement of Financial Position (Balance Sheet).

7.3 The income and expenditure account shows the effect of contributions and interest earned offset by payments to members and interest paid on liabilities. The IAS19 deficit has increased by £103m due to losses on the schemes investments.

7.4 The Balance Sheet shows the notional value of the net assets and accumulated liabilities for the fund as at 31 March 2012 as calculated by BTP's actuary on the basis of the purchase cost of annuities to fund pension entitlements outstanding at the year end.

7.5 In normal circumstances any business with a net liability would be insolvent; however this has been caused solely by the pension disclosure, and is therefore not the case. The Balance Sheet disclosure is an indication of the liability BTP would have to find if the pension funds were wound up at 31 March 2012. This is accepted in the going concern note to the accounts.

7.6 The DfT has confirmed that the BTPA is a going concern despite the large pensions liability as the probability of the BTPA being required to meet this liability is very remote. In the circumstances the fact that the BTPA has sufficient funds to meet its day to day liabilities is of more importance in determining that the BTPA is a going concern. It has been agreed that this will be kept under review and form part of the regular discussions held between the BTPA and DfT over finance issues.

8. THE NEXT STEPS

8.1 Assuming recommendation of approval of the Accounts by the Audit Committee at the meeting today, the BTPA will be asked to approve the accounts at its meeting on 12 June. The Chief Executive as Accounting Officer will then sign the accounts, the Letter of Representation and they will then be sent to the NAO for the Comptroller and Auditor General to sign off before sending to

TSO (publishers) who will publish and file the accounts with Parliament before the deadline of 15 June.

9. FINANCIAL IMPLICATIONS

9.1 There are no immediate financial implications associated with the recommendations in this report.

10. RECOMMENDATIONS

10.1 It is recommended that the Audit Committee recommend to the BTPA that the Statement of Accounts for 2011-12 be approved.