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Report to: Police Authority
Agenda: 8
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Subject: 2012-13 Statement of Account
Sponsor: Chair – Audit and Risk Assurance Committee
Author: Authority Finance Director
For: Approval

1. Purpose of paper

1.1 This report presents the statutory Statement of Accounts covering the 2012-13 financial year to the British Transport Police Authority following the conclusion of the external audit by the National Audit Office (NAO) and scrutiny by the Audit and Risk Assurance Committee on 31 May 2013.

2. Background

2.1 The Statement of Accounts for 2012-13 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 have been incorporated in this set presented to the Authority for approval.

2.2 The Authority's accounts form part of the DfT consolidated accounts as well as being a stand alone set of accounts. The accounts also form part of the wider whole of government accounts which are co-ordinated by HM Treasury and show the financial position of the entire public sector. The DfT consolidation requires the Authority accounts to be signed by the Accounting Officer before 19 June, when the consolidation accounts are scheduled for signing.

2.3 If approved by the Authority the next step is for the Chief Executive, in his capacity as the Accounting Officer, to sign the accounts and for them to be signed by the Comptroller and Auditor General (C&AG), before being laid before Parliament.

3. Audit 2012-13

3.1 The audit of the 2012-13 accounts is now complete and the Statement of Accounts is presented for approval by the Authority. 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 Authority has received a formal opinion from the NAO and a summary of their findings is summarised in paragraph 7 of this report.

3.2 A number of adjustments have been recommended by the NAO. These were discussed with both the Authority Finance Director and BTP Finance. Where appropriate these amendments have been made and they were summarised in the detailed NAO report. They included a number of reclassification of assets on the CCTV project, which had no effect on the retained surplus.

3.3 There has also been liaison between the NAO and the Authority'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. 2012-13 Financial to Management Account Reconciliation

4.1 During 2012-13 there was very close monitoring of expenditure and income to ensure that the Authority delivered their strategic objectives within the approved budget. In addition to the reviews within BTP, the results and full year forecast were scrutinised on a quarterly basis, by the Finance Committee and the full Authority.

4.2 The net underspend for BTP was £180k and the Authority were under spent by £21k. These under spends were transferred to the contingency reserve at the year end, bringing the total contingency reserve level to £3,595k. L Area was under spent by £390k.

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 £49,593k.

4.4 Accounting treatment requires some transactions to be treated differently in Management and Financial Accounting terms. A key control at year end closure is that the Management Accounting surplus or deficit can be reconciled to the Financial Accounting surplus or deficit. This reconciliation has been completed and is shown in paragraph 4.7.

4.5 The two material reconciling items are the entries relating to International Accounting Standard (IAS) 19, which deals with pension accounting and gives rise to an additional charge of £26.5m and the grant in aid received from the DfT which totals £20.0m and comprises monies received for the Olympics (£10.5m), the irrecoverable gap (£5.4m) and cable theft (£4.1m). In the financial accounts grant in aid is credited directly to reserves and not to income.

4.6 One of the other smaller adjustments relates to the treatment of income from the Home Office relating to Proceeds of Crime to bring BTP in line with the accounting treatment used by Home Office Forces. BTP receives a proportion of all seized cash back from the Home Office to fund specific projects. In previous years any income not used in the year it was received was carried forward for use in future years. On advice of the NAO this treatment has now changed and all income received is charged in the year it is received.

4.7 **Reconciliation between the Management and Financial Accounts**

	£000	£000
Management Accounts Outturn (surplus)	591	
Adjust for L Area Deficit	(390)	
L Area adjusted Surplus as reported in the Management Accounts		**201**
IAS 19 Pensions Adjustment		(26,453)
Capital Financing and MHCA adjustment		(2,550)
<u>DfT Grant in Aid</u>		
- Olympic Funding	(10,449)	
- Irrecoverable gap	(5,388)	
- Cable Theft	(4,123)	
		(19,960)
Net movement in provisions and reserves		(1,589)
<u>Other adjustments</u>		
- Rent free periods	106	
- Inventory adjustment	140	
- Proceeds of Crime Act	381	
- Financing for Palestra	131	
		758
(Deficit) as reported in the financial accounts		**(49,593)**

5. Change in Accounting Policies

5.1 There were no changes in accounting policy in 2012-13.

6. Impact of IAS19 ON BTPA Accounts

6.1 The purpose of the IAS19 is to ensure that financial statements reflect the assets and liabilities arising from the organisations 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.

6.2 The effects of IAS19 are shown in both the income and expenditure account and the statement of financial position (balance sheet). The income and expenditure account shows the effect of contributions and interest earned offset by payments to members and interest paid on liabilities.

6.3 The balance sheet shows the notional value of the net assets and accumulated liabilities for the fund as at 31 March 2013 as calculated by BTP's actuary on the basis of the purchase cost of annuities to fund pension entitlements outstanding at the year end. The IAS19 net liability has increased by £167.9m to £474.2m because of a lower discount rate and higher inflation rate assumptions being used, although these have been partially offset by an increase in asset returns.

6.4 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 the Authority would have to find if the pension funds were wound up at 31 March 2013. This is reflected in the going concern note to the accounts.

6.5 The DfT has confirmed that the Authority is a going concern despite the large pension's liability as the probability of it being required to meet this liability is very remote. In the circumstances the fact that the Authority has sufficient funds to meet its day to day liabilities is of more importance in determining that it 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 Authority and DfT over finance issues.

7. Summary of NAO report

7.1 The C&AG will report on his opinion to Parliament by means of the proposed audit certificate included in the attached accounts. The C&AG's certificate includes: an opinion on the truth and fairness of the financial statements; and an opinion on whether expenditure and income have been applied to the purposes Parliament intended and that the transactions conform to the authorities which govern them ('regularity'). The C&AG anticipates certifying the 2012-13 financial statements with an unqualified audit opinion, without modification.

7.2 No significant risks of material misstatement were identified at the time of planning the audit, but six risk factors were noted at the audit planning stage. These were as follows

- Amounts payable in connection with re-employment of retired police officers;
- Compliance with Cabinet Office spending controls;
- Potential compensation payments to a former member of staff;
- Payroll;
- Olympics Grant Funding; and
- Revised Police Service Agreements.

7.3 The detailed report from the NAO is available on request. In summary a reclassification exercise was requested around the expenditure on Ebury Bridge. No other significant issues were identified.

7.4 The NAO did identify a number of errors in a range of areas of the accounts and the accumulated gross impact of these was material to the financial statements. The majority of these errors related to the accruals and estimation processes in the production of the accounts. Overall, however, the NAO were content that the financial reporting and accounting processes are sufficiently robust to enable them to provide a clear opinion on the accounts. It was recommended, that these procedures are tightened up to further improve the accuracy of the accruals and estimation process in the production of the 2013-14 financial statements.

7.5 Adjusted errors gave rise to a £413k adjustment to the accounts, of which £381k related to the treatment of POCA income as referred to in para 4.6 above.

7.6 The unadjusted errors, which include extrapolation, total £633k. This amount includes a combined extrapolation as a result of a missing payroll file and incorrect input of time sheet figures, as reported to the Audit Committee in March. Based on these identified individual errors totaling £730 and combined with both the 4% sample size and the size of the overtime, allowance and expenses transactions, which total £20m, this led to an extrapolated unadjusted error regarding payroll of £758k.

7.7 A letter of representation was presented to the Audit and Risk Assurance Committee and will be signed by the Accounting Officer, provided Authority approval is given to sign the Accounts

7.8 At the Audit and Risk Assurance Committee, the NAO informed us that the laying date may be delayed as the C&AG wants to consider the implications of the Government Spending Review announcement on 26 June.

8. Next Steps

8.1 If approval is given by the Authority, the Chief Executive, as Accounting Officer, will sign the accounts and the letter of Representation. Once signed, they will then be sent to the NAO for the C&AG to sign off before sending to TSO (publishers) who will publish and file the accounts with Parliament before the deadline of the end of June. The NAO will need to satisfy themselves on the impact of the Spending Review on the Authority before the accounts are laid before Parliament. Although this is not expected to have any impact on the BTPA accounts.

9. Diversity issues

9.1 There are no diversity issues

10. Recommendations

10.1 It is recommended that the Authority approve the Statement of Accounts for 2012-13 and enable the Accounting Officer to sign the accounts as presented for submission to the NAO before being laid before Parliament.