

Report to: Police Authority
Agenda : 8
Date: 12 June 2014
Subject: Annual Statement of Accounts 2013/14
Sponsor: Chair of the Audit and Risk Assurance
Committee
Author: Authority Interim Finance Director
For: Approval

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1. Purpose of paper

1.1 This report presents the Statement of Accounts of the British Transport Police Fund for the year ended 31 March 2014 (“the Accounts”). The Accounts have been audited by the National Audit Office (“NAO”) and were reviewed by the Audit and Risk Assurance Committee on 30 May 2014.

2. Background

- 2.1 The Accounts are attached in Annex A. The Accounts have been produced in accordance with the accounts directive 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 2003.
- 2.2 The Accounts form part of the Department for Transport (“DfT”) consolidated accounts as well as being a stand alone set of financial statements. The Accounts also form part of the wider whole of government accounts which are prepared by HM Treasury and report the financial position of the entire public sector. The DfT consolidation requires the Accounts to be signed by the Accounting Officer before 19 June 2014, when the DfT accounts are scheduled for signing.
- 2.3 If approved by the British Transport Police Authority (“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 NAO Comptroller and Auditor General (“C&AG”), before being laid before Parliament.

3. Audit 2013-14

- 3.1 The audit of the Accounts is now complete and the Accounts are presented for approval by the Authority. The International Standard on Auditing 260 (“ISA 260”) requires the NAO to communicate observations from the audit that are relevant and significant to their responsibility to oversee the financial reporting process. In accordance with ISA 260 the NAO have prepared their Audit Completion Report and this is summarised in paragraph 7 of this report.
- 3.2 The NAO recommended that three adjustments were posted to the Accounts. The Authority Finance Director and the BTP Head of Finance and Procurement reviewed and approved the audit adjustments. The net effect of the adjustments was a £133,000 increase in net liabilities.
- 3.3 The NAO worked with 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. 2013-14 Reconciliation of the Accounts to the Management Accounts

- 4.1 The Accounts are required to comply with the FReM which is based on International Financial Reporting Standards (“IFRS”). The Management Accounts are used by the BTP and BTPA management to review, monitor the performance of and manage BTP and BTPA operations.
- 4.2 The Accounts require accounting adjustments relating to pensions, asset revaluations and provisions to be posted which do not impact on the operational performance of BTP and BTPA. These adjustments are not posted to the Management Accounts as they do not impact the operational performance of BTP or BTPA so they would not improve the Management Accounts and would reduce their effectiveness by adding unnecessary complexity.
- 4.3 The net deficit in the Accounts is £43,671k. The surplus in the management accounts is £1,100k. It is a key financial control that the Accounts and the Management Accounts are reconciled. A reconciliation between the Accounts and the Management Accounts has been completed and is provided in paragraph 4.4.

4.4 Reconciliation of the Accounts to the Management Accounts

	£000	£000
Total BTP Under Spend	(1,160)	
Less: L-Area Under Spend	60	
Over Ground Underspend or Surplus		(1,100)
IAS 19 Pensions Adjustment		44,070
Capital Financing and MHCA adjustment		(1,754)
Net movement in provisions and reserves		2,202
<u>Other adjustments</u>		
- Rent free periods	(106)	
- Inventory adjustment	(122)	
- Disposal of case and custody assets	481	
		253
Financial Accounts Deficit		43,671

5. Change in Accounting Policies

5.1 There were no changes in accounting policy in the 2013-14 financial year.

6. Impact of IAS 19 *Employee Benefits* ON BTPA Accounts

6.1 The purpose of IAS 19 *Employee Benefits* ("IAS 19") 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 the benefits are earned.

6.2 Mercer, the Authority's actuary, completes an IAS 19 valuation each year to calculate the IAS 19 pension liability to be recorded on the

Statement of Financial Position at 31 March 2014 and the IAS 19 charges to the Statement of Comprehensive Income for the year ended 31 March 2014.

- 6.3 The pension deficit recorded on the Statement of Financial Position at 31 March 2014 was £356.5m, a decrease of £117.7m compared to the deficit of £474.2m at 31 March 2013. The decrease in the deficit is due to an increase in the pension plan assets and a decrease in the pension plan liabilities due to an increase in the discount rate and an decrease in forecast future inflation and future expected wage increases.
- 6.4 The British Transport Police Fund is still a going concern despite having net liabilities of £281.8m as the DfT has agreed to underwrite any pension shortfalls. The net assets of the British Transport Police Fund, excluding the pension liability, are £74.7m. The Authority has historically always had sufficient income and funds to meet ongoing liabilities and this is forecast to continue for the foreseeable future. On this basis it is correct to prepare the Accounts on a going concern basis.

7. Summary of NAO Audit Completion Report

- 7.1 The C&AG will report his opinion to Parliament by means of the proposed audit certificate included in the attached Accounts. The C&AG's certificate includes his opinion on whether the Accounts give a true and fair view of the British Transport Police Fund's affairs and the deficit for the year. The C&AG's certificate also includes his opinion on whether the Accounts are properly prepared in accordance with the Railways and Transport Safety Act and Secretary of State directions. The NAO have informed us that the C&AG will be issuing an unqualified opinion.
- 7.2 When completing the audit the NAO identified three misstatements which have been posted to the Accounts. The net impact of the misstatements was a £133k increase in costs and a £133k increase in the deficit.
- 7.3 When completing the audit the NAO identified three misstatements that have not been posted to the Accounts as they were not considered to be material. The three adjustments were all reclassifications of balances on the statement of financial position that had no net impact on the deficit or the statement of comprehensive income.
- 7.4 The Audit Completion Report raised some control issues relating to accruals, pensions auto enrolment and information on the fixed asset register. None of the control issues identified were high risk or were significant enough to impact the Accounts. The control issues have been noted by the BTP and BTPA finance team and work has commenced to address these issues.

- 7.5 The NAO presented their Audit Completion Report to the Audit and Risk Assurance Committee with their audit findings. The Audit and Risk Assurance Committee reviewed the report and were satisfied with the audit process and findings and agreed to recommend that the Authority authorise the Accounting Officer to sign the Accounts.
- 7.6 The 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.

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. The signed Accounts will then be sent to NAO for the C&AG to be signed before sending to The Stationary Office publishers who will publish and file the accounts with Parliament before the deadline of 19 June 2014.

9. Diversity issues

- 9.1 There are no diversity issues

10. Recommendations

- 10.1 It is recommended that the Authority approve the British Transport Police Fund Statement of Accounts for the year ended 31 March 2014 and approve the Accounting Officer to sign the Accounts to be submitted to the NAO and laid before Parliament.