

British Transport Police Fund

Audit completion report (including management letter) on the 2016-17 financial statement audit

REPORT TO THOSE CHARGED WITH GOVERNANCE
6 June 2017

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National Audit Office

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We have prepared this report for British Transport Police Authority's sole use although you may also share it with Department for Transport. You must not disclose it to any other third party, quote or refer to it, without our written consent and we assume no responsibility to any other person.

1

Executive Summary



Introduction	This report summarises the key matters from our audit of the 2016-17 British Transport Police Fund financial statements which we must report to the Audit and Risk Assurance Committee, as those charged with governance, before we finalise our audit work and certify the accounts. We would like to thank the Directors of Finance of BTP and BTPA and their staff for their assistance during the audit process.
Proposed audit opinion	We anticipate recommending to the Comptroller and Auditor General (C&AG) that he should certify the 2016-17 financial statements with an unqualified audit opinion, without modification. The draft audit certificate is presented in Appendix 3 – Draft Audit Certificate .
Audit adjustments	We have identified one audit adjustments during our audit which has been adjusted. The net effect of these adjustments on the statement of comprehensive income and statement of financial position was £47,000. We have included the details of the audit adjustment on page 16 . We have made a number of suggestions to presentation and disclosures.
Key audit risks	We review risks to the financial statements on an ongoing basis. Our detailed findings are included on pages 10 – 15 of this report.
Other Key Matters	During our audit, we also considered other key audit matters with a financial statements impact. Our detailed findings are included on pages 17 – 20 .
Internal Control	Our key internal control observations and recommendations are detailed on pages 21 - 29 of this report.
Accounts production and audit process	British Transport Police has good processes in place for the production of the accounts and produced good quality supporting working papers. Officers dealt efficiently with audit queries, effectively prioritising them, and the audit process has been completed within the planned timescales. There have been significant improvements made over the last 18 months and there are no audit adjustments. The steps for 2018 would include streamlining the production of the version for publication and advancing the preparation and review of the annual report.
Completion	At the date of this report our audit of the financial statements is substantially complete subject to completion areas detailed on page 6 .

Actions for the Audit and Risk Assurance Committee

The Audit and Risk Assurance Committee is invited to:

- Review the findings set out in this report, including the draft letter of representation and audit certificate at [Appendix 2 and 3](#) respectively; and
- Consider the adequacy of the going concern disclosures included in the draft financial statements and conclude on whether this is a fair assessment. We request that this consideration is included in the letter of representation to the Comptroller and Auditor General (C&AG).

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Introduction



What is the status of our audit?

Our audit of the 2016-17 financial statements is now substantially complete, subject to final internal quality review procedures. The following items must be resolved prior to completion of the audit:

Item	Actions to resolve	Responsible
Financial Commitments	Receipt of final financial commitments disclosure and supporting schedules. Testing to be completed once received.	BTP/KPMG
Journals	Response to queries raised on journal support provided.	BTP/KPMG
IT spend	Details confirming spend on Capita Project and subsequent testing on receipt.	BTP/KPMG
Remuneration report	Final testing of audited remuneration report information. This relates to exit packages and staff numbers.	BTP/A/KPMG
Annual Report and Financial statements	Final review of annual report and financial statements.	KPMG/BTP
General	Final review and close down procedures	KPMG/NAO

The total audit fee charged for the year is in line with that set out in our Audit Planning Report, £100,000.

Following resolution of the issues listed above, the Accounting Officer will sign the annual report and accounts together with a letter of representation, the proposed wording of which is included in [Appendix 2](#).

Income Recovery

- South West Trains has disputed the increased PSA charge and is withholding payment until this can be resolved. Management anticipate this may result in an increased bad debt provision, although work is continuing on the matter. Five other PSA holders have raised concerns regarding re-allocations and increased charges.
- The DB Schenker dispute from 2015-16 has been resolved and paid; however the payment was for less than had originally been charged due to some crimes incorrectly attributed to the customer.
- Management anticipate there will be questions and potential challenges in relation to collecting the 2015-16 and 2016-17 surplus wash-up charges, which may result in bad debt write offs and increased provisions.

How we have added value:

- **Dispute with South West Trains (SWT)** - BTP has reached an agreement with SWT and £1.56m has been received subsequent to year end. The payment is in final settlement of the £1.71m outstanding balance and therefore is £143k less than the total amount due. BTPA has not yet decided how the balance will be recovered; options include recovering the costs through the 2016-17 wash up charges or writing off the balance. If the latter is selected, BTP have not provided for this in the financial statements. However, as the shortfall is below our materiality and reporting threshold we have not raised this as an audit misstatement.
- **Doubtful debts** - We have reviewed unpaid amounts older than 30 days as at year end and obtained audit evidence that either payments have been received or, in cases where no payments have been received, there is a valid evidence that the debt is recoverable. Therefore with the exception of SWT above, it is reasonable that there is no provision for doubtful debts.
- **Charging model** - We have reviewed the internal audit report on the BTPA charging model, which had an overall limited assurance (Amber) opinion. The recommendations raised relate to: the complexity of the model; guidance and process documents being updated and available; interaction between BTP and BTPA; and two recommendations over inputs into the model. We have concluded that these recommendations do not indicate an increased risk that the model could materially misstate the PSA income recognised. We have substantively tested 100% of the PSA Income in relation to our significant risk over revenue (see [page 12](#)).
- **Reallocation of charges** - We have reviewed the process of reallocations and considered the recoverability of increased charges. We substantively tested the communication of the 2015-16 wash up charges to the industry and found that payments have been received for the wash up charges subsequent to year end. Therefore we can conclude that these charges were recoverable as at 31 March 2017.
- **Matching invoices to receipts** - In 2015-16 there were issues over matching invoices to cash receipts, and there were some long outstanding aged debts. During 2016-17, BTP conducted a review of these debts and wrote off £201k of bad debts. Of these, £139k related to debts provided for in the previous year and £57k were matched to existing credit notes. This resulted in a £5k net impact on the Statement of Comprehensive Income for 2016-17. These debts have been properly written off under the Managing Public Money rules with the appropriate level of authorisation having been obtained. We have assessed management's judgement that the debts are long outstanding and irrecoverable either through lack of supporting evidence to assist with chasing payment, lack of clarity on invoice descriptions or incorrect transactional postings which require correcting. We have concluded no further provision is necessary.

Finance Team

- BTPA are currently in the process of implementing the finance action plan and are yet to establish a permanent finance function. Resourcing remains an issue in the fixed assets and procurement teams.

Cash and Cash equivalents

- During the year there have been concerns around the reducing levels of cash due to PSA direct debits not being collected on time. There has been a focus on bank reconciliations to ensure reconciling items are cleared in a timely manner. There has been rapid progress, however BTP are still looking to stabilise the processes and maintain live daily cash postings to the general ledger.

How we have added value:

- The deputy directors have been appointed in line with the finance action plan and actions are underway to appoint the rest of the full-time finance team. Please refer to our progress update on recommendations raised in the prior year on [Page 25](#) for further details.
- Although the finance team at BTP still relies on contract staff, our audit testing has not identified any instances of control failures or errors due to lack of a permanent finance team.

How we have added value:

- We have tested the bank reconciliation during the year, and found that the control is prepared in a timely manner, is accurate and appropriately approved and evidenced. Thus we have concluded that the control has operated effectively during the year.
- We also substantively tested the cash balance at year-end through obtaining bank confirmations directly from the banks and testing the year end bank reconciliation to underlying records. We have confirmed the figure to be accurately stated in the financial statements.
- We have reviewed the cash levels and forecasts during our assessment of the going concern of the BTP. We found that the cash flow forecasting appears to be reasonable.

Budget

- A letter dated the 23 August 2016 was received from the sponsoring department, the Department for Transport, that raised concerns over the continuing deficit and over-spend of the BTP budget. Spending within the budget for the next financial year is a key priority for BTP.

How we have added value:

- Although the financial statements show a £51.9m deficit, BTP has an underspend of £0.5m against budget. The difference of £52.4m is largely due to the impact of the IAS 19 Pension costs of £49.3m being charged to the Statement of Comprehensive Income. The remaining £3.1m relates to depreciation on externally funded assets and a drawdown on reserves.
- We have performed substantive analysis over expenditure and perform detailed testing on a sample of expenditure to ensure the completeness and accuracy as well as the regularity of expense transactions. We did not identify any errors.

Regularity

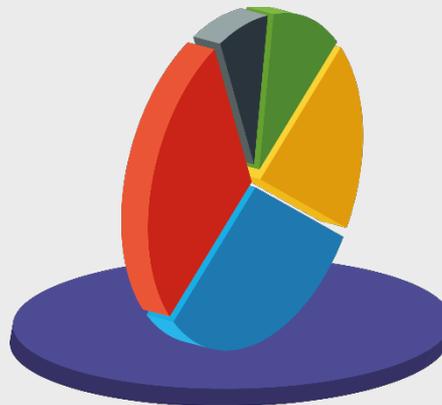
- During the year the Chief Executive resigned from BTPA under a settlement agreement. The principal payment was for 6 months' pay in lieu of notice.
- The BTP has had a discussions with Capita regarding the supplier's performance on the control works projects as milestones had been missed, resulting in additional costs being incurred.

How we have added value:

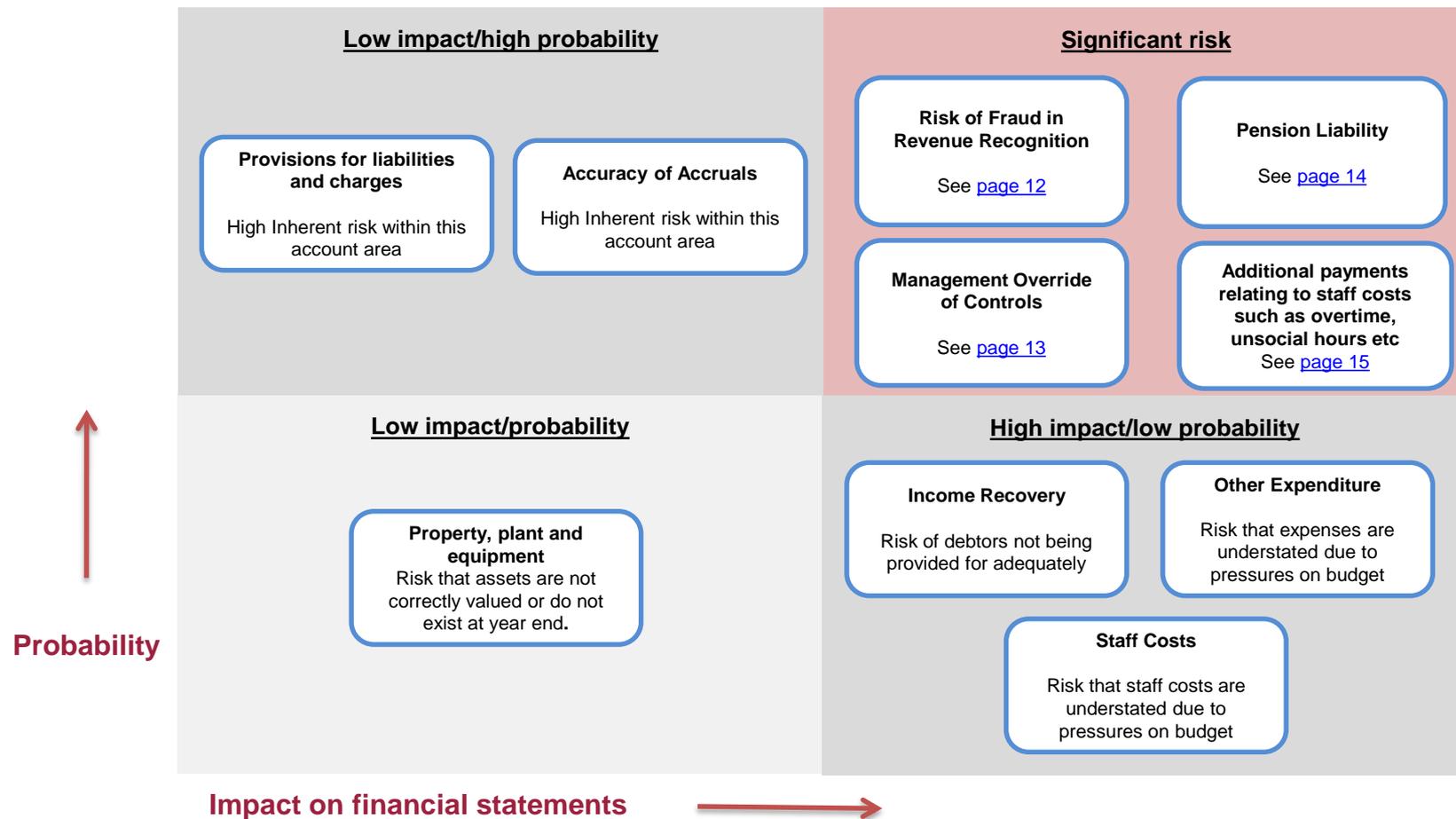
- BTPA sought advice from DfT regarding the Chief Executive's departure. We have reviewed the advice received and checked the details of the settlement agreement. We are satisfied that the payment in lieu of notice was made under the contractual arrangements of employment and therefore HMT approval did not need to be obtained.
- We have reviewed the controls works contract with Capita and have found that BTP obtained appropriate approvals from Cabinet Office (for both the initial contract as well as the additional spend on the contract.) Final testing is to be completed over the amount of expenditure approved. We will report on any issues identified subsequently to this report.

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Key audit findings



We identified the risks below in our Audit Planning Report presented to the Audit and Risk Assurance Committee on 29 November 2016. No additional risks have been determined in the course of our audit. Responses and findings against those risks we identified as significant risks of material misstatement to the financial statements can be seen in the next section of this report.



Risk of Fraud in Revenue Recognition

Description of risk

- The financial statements may be materially misstated owing to fraudulent revenue recognition
- Income is considered to be complex in nature due the inherent risks of the income model. The recognition of income is dependent on the output of the model. Due to these complexities we have decided not to rebut the presumed risk of fraud.
- Income is a significant value 2016-17: £290.7m (2015-16: £209.2m)

Our Response and Findings

We substantively tested income to assure ourselves over its completeness and accuracy.

PSA Income

- We have conducted 100% testing of core PSA income and agreed the income to the original charge letters and/or similar corroborating evidence.
- We have reviewed the income charging model to ensure that the outputs of the model for the 2015-16 wash up charges and 2016-17 provisional charges agree to the amounts communicated to the industry via the charge letters.
- See 2b on [page 7](#) for further details of the extensive testing performed to address this significant risk, including 100% testing of PSA income and detailed review of doubtful debts and income model

Other Income

- We sample tested EPSA income, London Underground income and other income and checked it to source documentation. We also looked at movements in income categories from prior year.

In addition we have performed substantive testing relating to material unpaid balances older than 30 days and determined that these amounts are recoverable. Hence we have concluded no provision for doubtful debts is required.

No material errors or omissions were identified

**Management
override of
controls****Description of risk**

- Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- Our audit methodology incorporates the risk of management override as a default significant risk.

Our Response and Findings

Our audit procedures included:

- We have followed a risk based approach testing of journals. Controls around journal approval were tested and found to be operating effectively. We used Data Analytics to identify higher risk journals, including cost reversing journals, material period 14 journals and measure the frequency of users posting journals. Testing of journals is being finalised as we are awaiting further documentation on 8 of the 26 samples selected. Any issues identified in these samples will be reported subsequently to this report.
- We have reviewed key accounting estimates and areas of judgement such as pensions, revaluations, useful lives, provisions and liabilities - and have assessed these as being reasonable.
- We did not identify significant, unusual transactions outside the normal course of business.

No instances of management override were identified

Pension Liability

Description of risk

- British Transport Police Authority has a highly significant pension liability 2016-17: £775,7m (2015-16: £491.4m). The value is based on external market conditions and key assumptions including life expectancy rates. There is a risk of incorrect assumptions being applied or incomplete underlying data being used when calculating the liability position - and this can lead to material misstatements.

Our Response and Findings

- We have agreed the accounts disclosures to supporting documentation from your scheme actuary, Punter Southall.
- All disclosures were found to be in line with the Accounting Standard (IAS 19). We have ensured that the pension liability and costs presented in the financial statements have been appropriately recognised and are in line with the actuary report
- We reviewed the arrangements for submission of data by RPMI (the pension fund administrators) to the actuary. We reviewed the data provided to ensure its accuracy and completeness.
- The actuaries have not carried out a full valuation, the liabilities have been estimated by updating the results of the prior year's valuation - this approach is normal for the purposes of IAS 19.
- KPMG actuaries reviewed your actuary's report and provided commentary on the assumptions. They concluded that the assumptions used by Punter Southall for valuing pension liabilities were slightly optimistic but were within the acceptable limits. See [Appendix 1](#) for further details of the assessment.
- The in-year increase in the liability, as reflected in the accounts, principally reflects the change in discount rate used.

No material errors or omissions were identified

Additional payments relating to staff costs such as overtime, unsocial hours, allowances etc

Description of risk

- British Transport Police Authority has a large portion of staff receiving overtime payments, other adjustments and allowances which have a higher degree of risk of accuracy.
- Additional payments are complex in nature as there are many rules and regulations which govern the calculation and payment of these additional payments and therefore there is a greater risk of error due to these complexities.
- We identified some misstatements and control findings in the prior year external audit relating to inaccurate and overpayment of overtime and allowances.

Our Response and Findings

- We have tested controls over starters, leavers, change in circumstances, overtime authorisation and payroll reconciliations. Our testing found these controls to be operating effectively and no deficiencies were identified.
- We tested an extensive sample of additional payments made to employees and found that all payments could be traced to supporting documentation such as contracts or timesheets. Overtime payments were correctly calculated as they were based on the correct hourly rates and approved number of hours worked.
- Please note: normal audit testing for such a relatively small element of staff costs would be limited to simple analytical procedures or a small sample. In response to the significant risk identified, our audit approach was to test controls specifically related to these payments, and perform an extensive sample test.

No material errors or omissions were identified

Identified misstatements Misstatements that we have identified and have been adjusted. Although the adjustment is below our clearly trivial threshold off £200,000 we have decided to report this misstatement for reasons noted below. The net effect of these adjustments on the statement of comprehensive income and statement of financial position was £47,000.

Adjusted Misstatements

Area	Issue	SoCI	SoCI	SoFP	SoFP
		Dr £000	Cr £000	Dr £000	Cr £000
Accruals	<p>Our audit procedures are designed to ensure that all journals processed subsequent to the issue of draft accounts are fully tested. This is due to the fact that there is a higher risk associated with these journals and they have not been subject to our normal audit procedures.</p> <p>BTPA raised a late period 14 accrual for £47,000 costs incurred for the hire of a consultant for Project Scotland. Our testing identified that the cost had already been invoiced and recorded in the current year expenditure; however, the invoice had been coded to the incorrect cost centre which led management to incorrectly raise an accrual.</p> <p>This has now been corrected. Although the value of the adjustment is below our normal reporting threshold of £200,000 we report the misstatement due to the nature of the transaction.</p> <p>DR Trade and other Payables (Accrued Expenses) CR Expenditure (Hire of consultants)</p>		47	47	

4 Other audit findings



Financial statement disclosures

We have also made a small number of other suggestions to improve narrative disclosures and to ensure completeness of the disclosures required under the FReM and other relevant guidance.

Accounting policies and financial reporting

As part of our audit, we consider the quality and acceptability of British Transport Police Fund's accounting policies and financial reporting. We consider the accounting policies to be appropriate, including policies relating to accounting judgement and estimates.

Regularity, propriety and losses

We have completed our regularity audit programme. Our work audit work of expenditure has tested whether in all material respects funds have been used for purposes actually intended. We found no issues of irregularity or impropriety during our audit.

We have confirmed that Losses are adequately disclosed in the accounts

Materiality

A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

Based on professional judgement, we determined overall materiality for the funds financial statements at £6.6 million, which is approximately 2% of Expenditure. We chose this benchmark as the purpose of BTP is to provide policing services on the railways and not to generate a profit. Expenditure is controlled through procurement and budget processes, and expenditure would influence the decisions of the users as the parties to police service agreements (PSAs), government and the wider public will be interested as to how funds have been spent to fulfil BTP's mandate. Expenditure is also a key metric by which the management assess the performance of the organisation.

Other elements of the financial statements that we consider to be more sensitive to users of the accounts have been assessed using a lower qualitative materiality threshold. These elements include the remuneration report disclosures; the losses and special payments note; and the audit fee.

Performance materiality

This is the amount or amounts set by the auditor at a level not higher than 75% of materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Reporting threshold

All uncorrected misstatements identified through our audit in excess of £200,000, as well as differences below this threshold that in our view warranted reporting on qualitative grounds, are included in this report.

Audit Scope

We have completed our audit of the 2016-17 financial statements in accordance with International Auditing Standards (UK and Ireland) issued by the Financial Reporting Council and with the audit planning report presented to the Audit and Risk Assurance Committee in November 2016.

We have also read the content of the draft annual report and the governance statement to confirm:

- their consistency with the financial statements and our understanding of the business;
- that the audited part of the remuneration report has been properly prepared; and
- that the governance statement has been prepared in accordance with HM Treasury guidance.

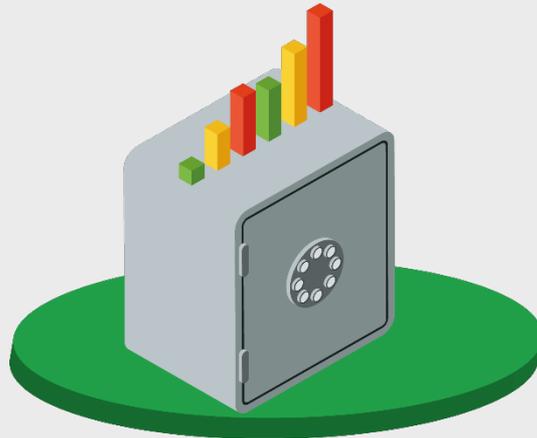
As part of our audit, we assessed:

- whether the accounting policies are appropriate to the British Transport Police circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Accounting Officer; and
- the overall presentation of the financial statements.

We are also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

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Internal control



Internal control

During the course of our audit we identified a number of control observations, the most significant of which are listed below.

Title	Area	Control issue identified	Level of risk
Timely recognition of disposals and write off of Fixed Assets	Non-current Assets	<p>During our testing of fixed asset disposals, we have noted that the majority of the assets being derecognised had actually been discarded or disposed in prior years. However the disposals were only recorded in the current financial year as the BTP Finance team had not been made aware of the disposals in the year they actually took place. With the exception of motor vehicle assets, we found that this delay in informing the Finance team of an asset disposal related to all categories of fixed assets.</p> <p>The risk has been mitigated by the fact that all assets identified for disposal had been fully depreciated and the disposal did not have an effect on the balance sheet position or the Statement of Comprehensive Income. In the absence of a formal mechanism to verify the existence of assets the BTP Finance team is dependent on different sections of the organisation informing them of any disposals. Therefore there is a risk that assets which still have a residual net book value could be disposed without Finance finding out. There is also the inherent risk that misappropriation of assets might not be identified in timely manner.</p>	



High risk – major issues for the attention of senior management which may have the potential to result in a material weakness in internal control



Medium risk - important issues to be addressed by management in their areas of responsibility.



Low risk – problems of a more minor nature which provide scope for improvement

Title	Area	Recommendation	Management response
<p>Timely recognition of disposals and write off of Fixed Assets</p>	<p>Non-current Assets</p>	<p>We recommend that that a stronger and robust process is put in place to ensure that the BTP Finance team is notified, in a timely manner, when fixed assets are disposed of to ensure that the disposal can be recognised in the correct financial year and that the fixed assets register can be updated promptly.</p> <p>One option is that that the Finance department issues a list of assets to each relevant section of the organisation, who then take responsibility of maintaining the risk for all additions and disposals in year and inform the Finance department of all changes to this list on a monthly basis. Periodically, divisional finance teams, central finance and/or internal audit could spot check whether the assets still exist or are in use.</p> <p>Management should ensure that these new arrangements are clearly communicated to all divisions of the BTP to ensure that parties are aware of the process. This will aid in preventing any future need for large-scale projects to identify non-existent assets.</p>	<p>Accepted</p> <p>The BTP Finance Gold Group is currently monitoring work being undertaken by the wider business on developing a Fixed Asset Management Plan. From this, key areas the business including Estates and IT will be required to maintain consistently formatted and complete asset lists. This would allow Finance to reconcile these lists to the Fixed asset register and also to (or another BTP individual) perform regular periodic physical verification checks. The manner in which this will be performed will be formalised and communicated in due course.</p> <p>In the short term – the period end timetable now has an entry for the capital accountant to send out requests to Fleet, IT and Estates to enquire of any disposals made that period.</p> <p>The Deputy Director, Financial Control will also be attending the periodic Finance Reviews in order to challenge Areas on their assets and how they are managing them.</p>

Title	Area	What was the recommendation?	Response/Progress	Status
Structure of the finance team	Overall	<p>During the previous and current financial year, BTP lost a number of staff in key financial roles, resulting in a loss of knowledge across the finance function. This led to the introduction of contract staff to help resolve the issues. Currently the senior finance team consists solely of contract staff whose contracts are due to end in the next financial year and who have shorter notice periods than permanent staff. Individuals have made significant efforts in the current year to rectify issues and produce a good quality draft of accounts, but there is a risk that this knowledge is not transferred to new permanent staff and progress made is lost.</p> <p>Recommendation – BTP should assess the optimum staffing complement for running the finance function, and move to a permanent solution. In the short term, this could include hiring permanent staff or contractors with longer notice periods. This should be completed with sufficient time for current contract staff to transfer knowledge to ensure that knowledge and quality is retained.</p>	<p>BTP/A accept this control issue identified by NAO. Action has already commenced to respond to this risk.</p> <p>An assessment of resources was undertaken in July 2016. This resulted in a proposed restructure to the Finance and Procurement team. A two phase approach has been taken. Three Deputy Directors have been appointed. One Deputy Director has joined the BTP and the other two will commence their roles in January 2017.</p> <p>Revised job descriptions have been developed for the remainder of the team and a restructure process is underway that is expected to be completed by December 2016.</p>	<p>Ongoing</p> <p>All deputy directors, as per the restructure, have commenced their roles in the current year. The finance team still includes contractors, but interviews have been conducted and staff for the new team have been recruited all will be in place by the end of July 2017. The BTPA and BTP finance directors positions are still currently held in an interim capacity.</p>

Title	Area	What was the recommendation?	Response/Progress	Status
Payroll 1 - Hourly rates incorrectly calculated	Staff Costs	<p>The hourly rate for additional payments (overtime, rest day working, bank holiday and unsocial hours) are not correctly calculated by the DMS system, thus resulting in underpayments. There is a risk that employees are being underpaid and that staff costs are understated.</p> <p>Recommendation – the BTP/A should identify the cause the problem and commission a fix to the system. The payroll team should conduct a review of employees to ensure that the correct hourly rates. There should be regular reviews of the information pulling through the system to ensure the data used by the system is accurate.</p>	<p>BTP/A accept this control issue identified by NAO. Full analysis of the cause of this issue has concluded.</p> <p>Rates of pay are stored on I-Trent (payroll) not DMS.</p> <p>BTP reviews 100% of all rates of pay monthly to identify discrepancies which are addressed immediately. This process was introduced following the audit.</p> <p>BTP has conducted a range of remedial activity with Midland HR; this includes a review of the contract and contract arrangements and accelerating the pay run date in order to provide more time for assurance activity in a process that was otherwise very constrained.</p> <p>Midland HR were tasked to conduct a health check of the I-Trent system. They have proposed a series of short, medium and long term measures to improve how information is configured. These proposals are being considered as part of Paul O’Sullivan’s work on transactional services with a view to either incorporating them into short or medium term improvements or part of the case for change the force opts to migrate to an alternative delivery means. This will report in December 2016.</p>	<p>Completed</p> <p>The discrepancy identified in the prior year was corrected and the root cause of the problem has been identified.</p> <p>Our audit testing in the current year did not identify any instances where the hourly rate has been incorrectly calculated and therefore controls implemented should prevent future occurrences of this error.</p>

Title	Area	What was the recommendation?	Response/Progress	Status
Payroll 2 - Overpayment of unsocial hours	Staff Costs	<p>We found four employees were paid for unsocial hours that they had not worked. Two instances occurred due to processing paper time sheets earlier than the payroll period, thus resulting a dual payment. The other two relate to employees whose timesheet on e-duty showed he/she was on sick leave; however the rostered hours were still paid. This was caused by the DMS system not being manually updated to reflect the sick leave. There is a risk of overpayment and that staff costs are overstated and employees are overpaid.</p> <p>Recommendation – the paper timesheet issues should reduce as a problem as more areas move to electronic timesheets, but the BTP/A should investigate the reason for sick leave not being updated and assess whether additional system controls can be implemented.</p>	<p>BTP/A accept this control issue identified by NAO. Full analysis of the cause of this issue has been completed. This was due to a time lag between periods of sick, adjustments on DMS, and pay roll cut off.</p> <p>The Force Resources Manager reviews sick leave and DMS reporting weekly to identify any discrepancy. This is reported to the Inspector Workforce Planning who rectifies the record and addresses any operational impact. The report is forwarded to payroll who use it to cross reference against pay records. Paper timesheets for unsocial hours have now been withdrawn and the system is now online.</p>	<p>Completed</p> <p>Our audit testing in the current year did not identify any instances of overpayment of unsocial hours and therefore controls implemented should prevent future occurrences of this error.</p>

Title	Area	What was the recommendation?	Response/Progress	Status
<p>Payroll 3 - Inconsistent TOIL application</p>	<p>TOIL Accrual</p>	<p>TOIL (time off in lieu) can be changed as far back as records for each individual are kept. This is not in line with the TOIL policy as there is a cut-off for the submission of TOIL hours. In addition, Division A maintain their own local TOIL arrangements, indicating that not all TOIL is entered into the DMS system from which data is run for the year end TOIL accrual.</p> <p>There is risk that TOIL balances could be manipulated or errors could be made.</p> <p>There is a compensating control whereby a monthly TOIL report is run by the Force Resource Manager. This report is run for each division and a version showing all staff with >40 or <8 hours of TOIL. This is sent to each division to ask why they have unusual TOIL hours. If errors are identified in this process corrections are then made to the DMS system. Although this looks at outliers, it does not fully compensate for the missing control in the band of “normal” hours.</p> <p>Recommendation – BTP should assess whether it is possible to enforce the TOIL cut-off by having parameters built into the DMS system. All parts of the Force should use the same system and adhere to the same processes.</p>	<p>This matter has been investigated by BTP. Corrective action has been taken and BTP have introduced a process to manage manual adjustments to any record relating to entitlements (TOIL/RDIL/AL) in DMS with the final approval to make the adjustment being made by Force Resource Manager. In addition the FRM audits all manual adjustments on a monthly basis to identify whether these are system or process related and from this we create a lessons learnt exercise and or a training requirement. It is not the case there is no local TOIL arrangements on any Division. What is referred to is local flexi time. This is neither contractual nor enhanced. The Force is working on a policy for flexi-time with a trial on-going. This will be presented to FEB in Jan 2017. TOIL parameters are stipulated in policy and are monitored through audit and finance review. Whilst variance is reported against, there is no current means to automate these controls. HRBC are procuring a solution which will address this.</p>	<p>Ongoing</p> <p>The Corporate Services team has implemented a quarterly review of manual DMS adjustments made, and final approval for adjustments being made by the Force Resource Manager.</p> <p>An updated version of the DMS software will be implemented in July 2017.</p> <p>A technical solution enabled by Capita was put in place on the 1st April, which automated the TOIL process and will have its first pay implication from the 1st July. Flexi-time is currently being trialled.</p> <p>Hence, implementation is in progress.</p>

Title	Area	What was the recommendation?	Response/Progress	Status
Payroll 4 - Employee documents not kept on file	Staff Costs	<p>We found a number of cases where the following staff documentation could not be provided as it was not kept on some of the employees' files:</p> <ul style="list-style-type: none"> • Promotion letters for four employees • Employment Contract for three employees <p>The information was available for most of the employees that we audited. There is a risk that supporting documentation is not kept on the employee file for future reference should disputes arise, or that information is being kept that is not necessary or for longer than necessary.</p> <p>Recommendation – the Authority should review the information that it needs to keep for employees, decide how that information is best stored, and then make sure that it follows the agreed policy.</p>	<p>BTP/A accept this control issue identified by NAO.</p> <p>HRBC has completed an audit of a sample of files which compared ORIGIN against the physical record back to 2011. The focus was on the triggers that result in a potential alteration to an individual's pay. This considered contract of employment, promotion, HDD, fit notes, sickness stages, career break, leavers retirements. The audit confirmed 96% completeness of either paper or electronic records.</p> <p>The audit will be repeated at 6 monthly intervals. A Force policy on key documents, method of data and retention is under way at HRBC as part of Information Management retention</p>	<p>Completed</p> <p>Our audit procedures in the current year did not identify any instances where the employee documents could not be obtained and therefore controls implemented should prevent future occurrences of this error.</p>

Title	Area	What was the recommendation?	Response/Progress	Status
Supporting documentation for lease disclosure	Operating Leases	<p>BTP could not locate evidence for some leases in the disclosure note. There was an overarching lease from Network Rail but individual leases had not been received by the Force as the information is apparently still with the solicitors: these leases take a significant amount of time to be completed.</p> <p>The value in the lease disclosure was erroneously based on prior year rental amounts. The difference results in an additional £50k per year on a 5 year lease term, and thus the lease disclosure is understated by £250k. Although this is not material to the financial statements, there is a risk that the lease commitments disclosed in statement of accounts may be misstated in future years.</p> <p>There is also a risk that lease agreements are not obtained within a reasonable time frame to support the financial commitments made by the authority and disclosed in the accounts.</p> <p>Recommendation – The Authority should build sufficient time into the year end accounts process to help the estates team collect the required information. Particular attention should be given to the process of obtaining leases with Network Rail.</p>	<p>BTP/A accept this control issue identified by NAO.</p> <p>In 2016-17 regular sessions between the Estates and Finance team are held to discuss estates-related financial disclosures. This enables the finance team to identify new leases and additional information which impact the financial statements at an earlier point.</p> <p>The finance team are working with the Estates team to maintain a log of lease contracts.</p> <p>The intention is to perform a detailed review of the Q3 financial statements which will include a review of financial disclosures. This will allow a further opportunity to collect evidence before the year end audit.</p>	<p>Ongoing</p> <p>Our audit procedures identified that the leases relating to Network Rail was available in the current year audit. We tested sample of 15 leases and were able to obtain leases in all cases.</p> <p>However, the disclosure was erroneously based on rental costs of the prior year rental amounts and service charges were incorrectly calculated. The total error is clearly trivial as it is below £200K however there is still room for improvement in ensuring that accurate records are maintained for all leases the BTP/A have entered into.</p>

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Other matters for consideration



Independence

We consider that we comply with Auditing Practices Board (APB) ethical standards and that, in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between us and British Transport Police / British Transport Police Authority that we consider to bear on our objectivity and independence.

International standards on Auditing (UK and Ireland)

We consider that there are no additional matters in respect of items requiring communication to you, per International Standards on Auditing (UK and Ireland), that have not been raised elsewhere in this report or our audit planning report. Items requiring communication cover:

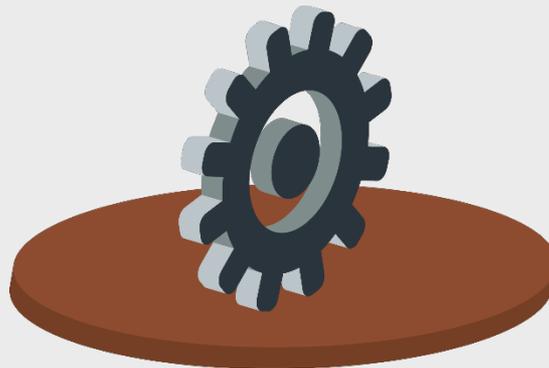
- Fraud
- Going concern
- British Transport Police /British Transport Police Authority compliance with laws and regulations
- Significant difficulties completing the audit
- Disagreements or other significant matters discussed with management

Cooperation with other auditors

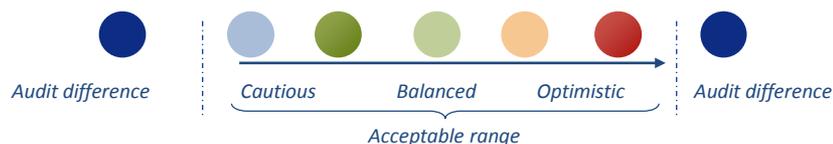
Internal Audit

We did not take formal assurance from the work of Internal Audit but we received and reviewed reports issued by Internal Audit during the year and we are grateful for the insight they provided.

7 Appendices



Level of prudence compared to KPMG central assumptions



Assumptions	Authority	KPMG central	2016/17 Assessment	2015/16 Assessment	KPMG comments for 2016/17 Assumptions
Overall	-	-			<ul style="list-style-type: none"> The overall assumptions adopted by the Authority are more optimistic than KPMG's central rates for a scheme with a liability duration of around 20 years. They can however be considered acceptable under IAS 19 as at 31 March 2017.
Discount rate	2.50%	2.50%			<ul style="list-style-type: none"> The Authority's discount rate of 2.50% is in line with KPMG's central assumption for the Schemes and can therefore be considered acceptable under IAS19 as at 31 March 2017.
RPI inflation	3.30%	3.40% (no IRP)			<ul style="list-style-type: none"> The Authority's RPI inflation rate of 3.30% is weaker (i.e. places a lower value on the pension liabilities) than KPMG's central rate for the Schemes; it can however be considered acceptable under IAS19. In line with the prior year, the Authority has adopted an Inflation Risk Premium ("IRP") of 0.2%. KPMG's central assumption does not make an allowance for an IRP, however we recognise that this practice is common in the market place.
CPI inflation	RPI less 1.00% (2.30%)	RPI less 1.00% (2.40%)			<ul style="list-style-type: none"> The proposed RPI/CPI wedge of 1.00% is in line KPMG's central assumption and can be considered acceptable under IAS19.
Pension increases	CPI: 2.30%	CPI: 2.40%			<ul style="list-style-type: none"> The proposed pension increase assumption is more optimistic than KPMG's central assumption; however it can be considered acceptable under IAS 19 as at 31 March 2017.
Salary growth	Years 1-3: 1.00% Thereafter RPI inflation: 3.30%	0-1.5% above RPI inflation			<ul style="list-style-type: none"> The proposed assumption is set with reference to the Authority's "Medium Term Financial Strategy". We recommend that the audit team verify that this is in line with the Authority's long term remuneration policy.
Life expectancy* Current pensioner Future pensioner	22.1 years 23.9 years	22.2 years 24.0 years			<ul style="list-style-type: none"> We have compared KPMG's central life expectancies to those of the BTPSFS. The proposed mortality assumptions for the BTPSFS at 31 March 2017 produce life expectancies that are broadly in line with KPMG's central assumptions and can be considered acceptable under IAS19.

The Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
LONDON
SW1W 9SP

LETTER OF REPRESENTATION: British Transport Police Fund 2016-17
I acknowledge as Accounting Officer of the British Transport Police Fund my responsibility for preparing accounts that give a true and fair view of the state of affairs, net deficit, changes in tax payers' equity and cash flows of the British Transport Police Fund for the year ended 31 March 2017. In preparing the accounts, I was required to:

- observe the accounts direction issued by the Secretary of State for Transport, including the relevant accounting and disclosure requirements and apply appropriate accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed and disclosed and explain any material departures in the accounts; and
- make an assessment that the British Transport Police Fund is a going concern and will continue to be in operation throughout the next year; and ensure that this has been appropriately disclosed in the financial statements.

I confirm that for the financial year ended 31 March 2017:

- neither I nor my staff authorised a course of action, the financial impact of which is that transactions infringe the requirements of regularity as set out in Managing Public Money;
- having considered and enquired as to the British Transport Police Fund's compliance with law and regulations, I am not aware of any actual or potential non-compliance that could have a material effect on the ability of the British Transport Police (Force and Authority) to conduct its business or on the results and financial position disclosed in the accounts;

- all accounting records have been provided to you for the purpose of your audit and all transactions undertaken by the British Transport Police Fund have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management meetings which you have requested have been supplied to you; and
- the information provided regarding the identification of related parties is complete; and the related party disclosures in the financial statements are adequate.

All material accounting policies as adopted are detailed in note 2 to the accounts.

INTERNAL CONTROL

I acknowledge as Accounting Officer my responsibility for the design and implementation of internal controls to prevent and detect error and I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated.

I confirm that I have reviewed the effectiveness of the system of internal control and that the disclosures I have made are in accordance with HM Treasury guidance on the Governance Statement.

FRAUD

I acknowledge as Accounting Officer my responsibility for the design and implementation of internal controls to prevent and detect fraud and I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated as a result of fraud.

I am not aware of any fraud or suspected fraud affecting the British Transport Police Fund and no allegations of fraud or suspected fraud affecting the financial statements has been communicated to me by employees, former employees, analysts, regulators or others.

ASSETS

General

All assets included in the statement of financial position were in existence at the reporting date and owned by the British Transport Police Fund, and free from any lien, encumbrance or charge, except as disclosed in the accounts. The statement of financial position includes all tangible assets owned by the British Transport Police Fund.

Non-Current Assets

All assets over £1000 are capitalised. They are revalued annually using modified historic cost accounting and appropriate indices. Depreciation is calculated to reduce the net book amount of each asset to its estimated residual value by the end of its estimated useful life in the British Transport Police Fund's operations.

Other Current Assets

On realisation in the ordinary course of the British Transport Police Fund's operations the other current assets in the statement of financial position are expected to produce at least the amounts at which they are stated. Adequate provision has been made against all amounts owing to the British Transport Police Fund which are known, or may be expected, to be irrecoverable.

Cash

All cash included in the statement of financial position was held by the British Transport Police Fund at the reporting date, except where disclosed in the accounts.

The statement of financial position includes all cash controlled by the British Transport Police Fund.

LIABILITIES

General

All liabilities have been recorded in the statement of financial position. There were no significant losses in the year and no provisions for losses were required at the year-end.

Provisions

Provision is made in the financial statements for:

- Claims against the Authority valued at £1 194 000;
- Dilapidations valued at £2 001 000;
- Employment tribunals at £240 000;
- Other provisions valued at £ 1 371 000, which are made up of:
 - Onerous Lease valued at £267 931;
 - Rent review provision at £1 105 401.

Contingent Liabilities

I am not aware of any pending litigation which may result in significant loss to the British Transport Police Fund, and I am not aware of any action which is or may be brought against the British Transport Police Fund under the Insolvency Act 1986.

OTHER DISCLOSURES

Results

Except as disclosed in the accounts, the results for the year were not materially affected by transactions of a sort not usually undertaken by the British Transport Police Fund, or circumstances of an exceptional or non-recurring nature.

Events after the Reporting Period

Except as disclosed in the accounts, there have been no material changes since the reporting date affecting assets, liabilities and commitments, and no events or transactions have occurred which, though properly excluded from the accounts, are of such importance that they should have been brought to notice.

Management of Personal Data

Except as disclosed in the Directors' Report, there have been no personal data related incidents in 2016-17 which are required to be reported.

Charlotte Vitty
Accounting Officer
[Date]

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

I certify that I have audited the financial statements of British Transport Police Fund for the year ended 31 March 2017 under the Railways and Transport Safety Act 2003. The financial statements comprise: the Statements of Comprehensive Income, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration and Staff Report that is described in that report as having been audited.

Respective responsibilities of the Authority, Accounting Officer and auditor
As explained more fully in the Statement of Accounting Officer's Responsibilities, the Authority and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Railways and Transport Safety Act 2003. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the British Transport Police Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by British Transport Police Fund; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- The financial statements give a true and fair view of the state of British Transport Police Fund's affairs as at 31 March 2017 and of the net deficit for the year then ended; and
- The financial statements have been properly prepared in accordance with the Railways and Transport Safety Act 2003 and Secretary of State directions issued thereunder.

Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and Parliamentary Accountability Report to be audited have been properly prepared in accordance with Secretary of State directions made under the Railways and Transport Safety Act 2003; and
- the information given in Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Remuneration and Staff Report and Parliamentary Accountability Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse Date
Comptroller and Auditor General

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

Uncompromising on professionalism

- Applying professional auditing standards
- Committed to recruitment and development of professionally qualified and experienced auditors
- Two stage review of all audit work
- Internal post-audit quality assurance reviews

Risk-based and proportionate

- Range of internal review and consultation processes available for higher risk issues
- Training and knowledge-sharing initiatives to promote consistency of approach across audits

Audit quality at the NAO

Responsive

- Committed to positive client relationships
- Client feedback survey on all financial audits
- Moderated feedback on a selection of clients annually

Independent

- Applying the highest ethical standards and approach in our work
- External review of compliance with professional standards by the Audit Quality Review team of the FRC
- Annual survey of MPs as our key stakeholders and users of financial statements