

ORIGINATOR: PCC CFO and CC CFO

PAPER NO: AC14/20

SUBMITTED TO: AUDIT COMMITTEE - 23 SEPTEMBER 2014

**SUBJECT: PCC AND CC STATEMENT OF ACCOUNTS 2013/14
INCLUDING THE ANNUAL GOVERNANCE STATEMENTS**

SUMMARY:

1. The Police and Crime Commissioner's (PCC) Annual Governance Statement and Group Statement of Accounts are submitted to the Audit Committee for consideration in advance of their approval by the PCC on or before 30 September 2014.
2. The Chief Constable's (CC) Annual Governance Statement and Statement of Accounts are submitted to the Audit Committee for consideration in advance of their approval by the CC on or before 30 September 2014.
3. The external auditors require Letters of Representation signed by the PCC Chief Finance Officer and CC Chief Finance Officer before issuing their final audit opinion on the Statements of Accounts by 30 September 2014 (see Section 4).

RECOMMENDATION:

1. The Committee is recommended to consider the PCC's and CC's Annual Governance Statements and their respective Statements of Accounts.
2. Subject to the process described in paragraphs 5.1 and 5.2, the Committee is invited to recommend for approval the Statements of Accounts, and adoption of the Annual Governance Statements, by the PCC and CC.

DETAIL OF THE SUBMISSION

1. INTRODUCTION

- 1.1 Under the Police Reform and Social Responsibility Act 2011 the PCC and CC are defined as corporate entities (as Corporations Sole). These corporate entities have also been established as Schedule 2 (Accounts Subject to Audit) bodies under the Audit Commission Act 1998.
- 1.2 The Accounts and Audit (England) Regulations 2011 require authorities to follow “proper practices in relation to accounts” for the preparation of the Statement of Accounts. The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) constitutes “proper accounting practice” in England and Wales under the terms of Section 21 (2) of the Local Government Act 2003. PCCs and CCs in England and Wales are defined as local authorities under Section 23 (as amended by the Police Reform and Social Responsibility Act 2011) and are required, therefore, to follow the Code.
- 1.3 The Home Office Financial Management Code of Practice for the Police Service of England and Wales sets out that the Chief Finance Officer (CFO) of the PCC will be responsible for ensuring the production of the Statements of Accounts and the Group Accounts of the PCC, and the CC CFO has the same responsibilities on behalf of the CC. The legal framework indicates that the Statements of Accounts including the Group Accounts and the single entity financial statements should be produced in accordance with the Code’s requirements.

2. PCC AND CC ANNUAL GOVERNANCE STATEMENTS (APPENDICES A AND B)

- 2.1 At its meeting on 27 June the Audit Committee considered a draft PCC Annual Governance Statement (AGS) (paper AC14/12), and a draft CC AGS (paper AC14/13).
- 2.2 The two statements have been amended to take account of observations made by the Committee at that meeting and subsequent comments made by the external auditors. The changes made in consequence of the external auditors relate in the main to the three significant governance issues in the final section of each statement.
- 2.3 Attached at Appendix A is an updated AGS for consideration by the Audit Committee in advance of its adoption by the PCC and approval of the PCC’s Statement of Accounts by the end of September.
- 2.4 The draft CC AGS is attached at Appendix B for consideration by the Audit Committee in advance of its adoption by the CC, and approval of the CC’s Statement of Accounts, by the end of September.

3. STATEMENT OF ACCOUNTS (APPENDICES C AND D)

Significant Presentational Change

- 3.1 For the financial year 2012/13, the presentation of the accounts was based on a principal and agent accounting arrangement with the Police and Crime Commissioner being the principal and the Chief Constable the agent. This was due essentially to the judgement that the PCC had high level control of policing through his Police and Crime Plan objectives. This meant that a full set of statements and notes, and all transactions and balances of the PCC group were represented in the PCC accounts and the primary statements of the Chief Constable did not contain any transactions or underlying accounting entries, and limited notes were produced.
- 3.2 Following greater clarity and a better understanding of arrangements and governance between the PCC and the Chief Constable, as well as bulletins issued by CIPFA and the Audit Commission that enhanced the prevailing guidance, the presentation of the accounts is different this year from last year. The PCC and Chief Constable are both considered principals and therefore both corporations' sole should have a full set of statements.
- 3.3 The main principles of how transactions and balances have been split between the CC and PCC accounts are that the expenditure and income associated with day-to-day direction and control and the PCC's funding to support the Chief Constable is best shown in the Chief Constable's Accounts, with the main sources of funding (i.e. central government grants and Council Tax) and the vast majority of assets and balances being shown in the PCC's Accounts, along with associated capital charges.
- 3.4 This has resulted in a change of accounting policy and therefore a prior period adjustment has been included in the accounts for the period 2012/13 to represent the above position.

A summary of significant sections of the accounts

- 3.5 The explanatory foreword in both sets of accounts contains useful information including an explanation of what is included in the main financial statements, and the purpose of each statement.
- 3.6 It also contains information about the revenue outturn and capital expenditure for 2013/14, as well as a section looking forward to the future economic position.
- 3.7 Note 3 in the Group / PCC accounts and note 4 in the CC accounts on Critical Judgements sets out those judgements that influenced the content of the accounts, including why transactions have been shown within the CC accounts this year, how assets have accounted for, and the change in status for the CC in being a Local Authority for accounting purposes.
- 3.8 Note 6 in both accounts explains what functions are included in each of the Net Cost of Service lines in the Comprehensive Income and Expenditure Statement (CIES).

- 3.9 Note 42 in the Group / PCC Accounts and note 2 in the CC accounts explains the impact on the main statements for 2012/13 resulting from the change in presentation of the accounts as stated in sections 3.1 to 3.4 above.

Other issues

- 3.10 There are a relatively small number of rounding differences within the Statement of Accounts, which are unavoidable, and do not detract from the accuracy of the figures.

4. LETTERS OF REPRESENTATION

- 4.1 In addition to the Audit Committee's consideration of the draft Statements of Accounts and Annual Governance Statements, the Committee is requested to consider draft Letters of Representation, which are required to be sent to the external auditors by the CFO's in advance of them issuing their opinion on the PCC and CC's financial statements.

- 4.2 The draft Letters of Representation are included for consideration by the Audit Committee in the following paper AC14/21.

5. PROCESS FOR AUTHORISATION OF THE ACCOUNTS FOR ISSUE BY THE PCC AND CHIEF CONSTABLE

- 5.1 Unless any material changes are required by the external auditors as a result of their final testing by the 30 September 2014:

- subject to a formal decision by the PCC, the Statement of Accounts of the PCC (Appendix C) will become the approved accounts, and together with the annual Governance Statement (AGS), be published on the PCC website, and
- subject to approval by the CC, the Statement of Accounts of the CC (Appendix D) will become the approved accounts, and together with the Annual Governance Statement (AGS), be published on the Constabulary website.

- 5.2 However, in the event that the statement requires further amendment, it is recommended that the PCC and CC CFO's authorise the amendments as necessary on or before 30 September 2014 and inform the Committee of the amendments made.

6. FINANCIAL IMPLICATIONS

- 6.1 There are no financial implications of any significance arising from consideration of this paper.

7. OTHER IMPLICATIONS AND RISKS

- 7.1 There are no other implications or risks associated with consideration of this paper.

ORIGINATOR CHECKLIST (MUST BE COMPLETED)	PLEASE STATE 'YES' OR 'NO'
Has legal advice been sought on this submission?	No
Has the PCC's Chief Finance Officer been consulted?	Yes- PCC and CC CFO's are co-authors
Have equality, diversity and human rights implications been considered including equality analysis, as appropriate?	Not applicable
Have human resource implications been considered?	Not applicable
Is the recommendation consistent with the objectives in the Police and Crime Plan?	Not applicable
Has consultation been undertaken with people or agencies likely to be affected by the recommendation?	Not applicable
Has communications advice been sought on areas of likely media interest and how they might be managed?	No – not considered necessary.
Have all relevant ethical factors been taken into consideration in developing this submission?	Ethical considerations have been taken into account in the production of the Annual Governance Statement and the Accounts.