JOINT INDEPENDENT AUDIT COMMITTEE
28 MARCH 2014

REVIEW OF ACCOUNTING POLICIES

SUMMARY AND PURPOSE OF REPORT

For the 2013/14 financial statements: to update the committee on the 2013/14 accounting policies.

Also, to describe the statutory environment for 2013/14 accounting and to propose the methodology for the preparation of the draft statements.

RECOMMENDATIONS

1. **Progress on the accounting policies attached at appendices 1-5 be noted.**

2. **The proposed accounting methodology for the 2013/14 accounts as described at section 6 be noted.**

A. SUPPORTING INFORMATION

1. Introduction

    1.1. Accounting policies are required for the accounts of the PCC group, the PCC and the Chief Constable. These policies describe the accounting practices used to produce the respective statements of accounts. They are included as the first note to the financial statements in the published documents. As the PCC group accounts contain all the transactions relating to assets and liabilities, the policies referred to below mainly relate to that set of accounts.

2. Changes to policies

    2.1. An updated set of accounting policies for the PCC Group are attached at Appendix 1. The changes to notes compared with 2012/13 are:
    - The limitation of vehicles, plant and specialist equipment having a useful life of between 3 and 5 years has been removed.
    - Clarity has been added about which short term employee benefits are classified as short-term accumulating absences that do not affect the general fund balance.

- The adoption of the 2011 amendments to IAS 19 *Employee Benefits* by the Code of Practice will result in a change in accounting policy. The policies will be finalised when details of the IAS 19 actuarial assumptions are provided by Hymans Robertson in April.
- Further, the adoption of the 2011 amendments to IAS 1 *Presentation of Financial Statements* by the Code may also lead to amendments to our policies.

2.2. In particular, the new requirements for disclosures under IAS 19 will change the format of the note on retirement benefits. They will create the need to restate the comparative year and may also require the inclusion of the opening balance for the comparative year.

2.3. There have been no changes to other supporting accounting policies. The policy for component accounting is at Appendix 2. The approach for recognising capital costs is described in Appendix 3. The materiality threshold is described in more detail below. Appendix 4 provides a summary of materiality and de minimis levels across the different accounting areas.

2.4. Policies may be further amended subject to Local Authority Accounting Panel bulletins issued by CIPFA in the coming weeks. LAAP 98 will provide advice on the local authority accounts for 2013/14 but was not available as at 17th March. LAAP 98A gives more specific advice on the PCC and Chief Constable accounts. This was circulated on 17th March and is being assessed now to deduce its application to Lincolnshire Police.

3. Adoption of a materiality threshold for Lincolnshire Police

3.1. Financial statements should present a true and fair view. A discussion about the relevance of materiality to the financial statements is given within the policy at Appendix 4.

3.2. It is proposed that the PCC group adopts 0.1% of gross revenue expenditure as its own prudent materiality level, i.e., £100k. This will be used to inform internal considerations about the application of policies and accounting standards where doing so will not misrepresent the group's position.

4. Legal and accounting framework for 2013/14

4.1. The two "Corporation Soles", the Police and Crime Commissioner for Lincolnshire and the Chief Constable for Lincolnshire, will produce separate accounts. The Financial Management Code of Practice for the Police Service of England & Wales (Jan 2012) clearly sets out that this change creates a 'Group' structure and the expectation that Group Accounts will be required (para 7.1).

4.2. The group and its individual entities continue to be bound by the requirements of existing legislation/regulations related to its accounting and audit obligations – i.e. the Local Government Act 2003, the Audit Commission Act 1998 and the Accounts and Audit (England) Regulations 2011. In essence this means that the accounts for the group will still need to be produced in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (“the Code”) and subject to audit.

4.3. The Chief Constable now has Local Authority status which means that it has the legal right to reverse statutory accounting adjustments such as actuarial pension adjustments. It is not yet clear if the Chief Constable will be free to follow the 2012/13 approach (which left all IAS19 accounting entries to be reversed through the group accounts).

4.4. The accounting policies for the Chief Constable are therefore limited to those applicable to the transactions included in his accounts and are shown at Appendix 5.

4.5. Chief Finance Officers and G4S Finance will be in touch with all the latest guidance and its interpretation from CIPFA, our external auditors KPMG and other police practitioners.

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5. Interpretation of the accounting framework

5.1. In the 2012/13 accounts, all the main statements for the Chief Constable were ‘nil returns’ as transactions were the responsibility of the PCC. There was an ‘operating cost statement’ to recognise the cost of police officers managed by the Chief Constable. .

5.2. The main points supporting this approach were:
- the accounting policies and methodology selected must be justified locally by reference to each group’s Scheme of Arrangements;
- agreement should be sought and obtained from external auditors to the proposed methodology such that contention during the audit is avoided as far as is possible.

5.3. The same Scheme of Arrangements for stage 1 has applied throughout the 2013/14 financial year. Hence, unless there is definitive national guidance to the contrary, the intention is to follow the same pattern of accounting statements as in 2012/13. The details of LAAP bulletin 98A will be crucial in this respect.

6. Proposed methodology for the 2013/14 accounts

6.1. The respective Chief Finance Officers have sought to comply with all the necessary legislation and promote transparency whilst restricting additional work to a minimum. The current approach continues the 2012/13 disclosures in leaving all transactions with the PCC unless absolutely necessary.

6.2. The proposed methodology is based on the fact that the PCC owns both assets and liabilities, receives and controls all income and is the legal body that contracts with suppliers and employees. It also respects the fact that the Chief Constable will consume resources to deliver the aims of the Police and Crime Plan.

6.3. Early closedown means that we cannot wait for the regional data at the end of May. The impact of regional collaboration will be estimated for production of the draft accounts. The actual figures will be available for the audited accounts in September.

6.4. Definitive guidance from CIPFA during March 2014 may lead to some disclosures becoming mandatory. However, for the time being it is proposed that:

1) Two sets of accounts will be produced – PCC/Group and Chief Constable
2) The group accounts will be produced first and then disaggregated to form the individual entity accounts
3) Accounting policies will be harmonised across the group and generally reflect the policies adopted as described in Appendix 1
4) The Police Pension Fund Account will appear as a supplementary statement to the PCC's and Chief Constable's accounts.
5) All assets and liabilities will reside on the PCC/Group Balance Sheet only
6) All banking and investments will be in the name of the PCC and hence on the PCC/Group Balance Sheet
7) All income will be received by the PCC and shown in the PCC/Group Income & Expenditure Account
8) The PCC's Income & Expenditure Account will show a transfer of resources to the Chief Constable's Operating Cost Statement equal to the cost of the resources consumed by the Chief Constable in delivering the Police and Crime Plan
9) This transfer will be described as "intra group funding"
10) Costs shown in the Chief Constable's Operating Cost Statement will be police officer pay and employer's costs inclusive of statutory accounting charges for pension actuarial adjustments, but the actuarial charges will be reversed under local authority rules within the PCC/Group accounts
11) The Police Pension Scheme valuation will be carried out on a "single employer" basis in that the PCC will be the named employer and hence the pension liability will sit on the PCC/Group Balance Sheet. The effect of the IAS 19 adjustments will be included in the "cost of resources consumed" figures recharged to the Chief Constable's Operating Cost Statement.
12) The Force's share of the police officer pay for each section 23 Regional Collaboration (or "joint arrangement") will be included in the costs transferred to the Chief Constable
13) All reserves will reside with the PCC/Group
14) All cashflow movements will take place within the PCC/Group accounts reflecting the fact that the Chief Constable does not have his own banking arrangements
15) Both sets of accounts will comply with "the Code" in that they shall include the four primary statements and supporting notes unless modified in agreement with External Audit
16) There will be no operating lease disclosures between the PCC and Chief Constable for the use of assets by the Chief Constable
17) No costs for "Corporate & Democratic Core" disclosures will be included in the accounts of the Chief Constable

B. FINANCIAL CONSIDERATIONS

None.

C. LEGAL AND HUMAN RIGHTS CONSIDERATIONS

None.

D. PERSONNEL, EQUAL OPPORTUNITIES AND DIVERSITY ISSUES (including any impact or issues relating to Children and Young People.)

None.

E. REVIEW ARRANGEMENTS

The accounting policies will need to be updated before the publication of the draft accounts. Authority to do this should be delegated to the Chief Financial Officers.

Audit Committee will be made aware of any changes to policies and accounts format as the draft and final accounts are brought to the committee.

F. RISK MANAGEMENT

None.

G. PUBLIC ACCESS TO INFORMATION

Information in this report along with any supporting material is subject to the Freedom of Information Act 2000 and other legislation.