



AGENDA NO: 10

INDEPENDENT AUDIT COMMITTEE – 02 APRIL 2019

2018/19 STATEMENT OF ACCOUNTS

REPORT BY LUCINDA HINES

PURPOSE OF THE REPORT

To inform the Independent Audit Committee of the key updates for the 2018/19 Statement of Accounts for the Office of the Police and Crime Commissioner and the Chief Constable.

1. INTRODUCTION

- 1.1 This report outlines the preparation for the 2018/19 Statement of Accounts; gives an update on the recommendations made by KPMG after auditing the 2017/18 Statements of Accounts; and advises on the accounting policy changes.

2. SALIENT POINTS

2.1 KPMG Recommendations

- 2.1.1 Four recommendations were common to Devon and Cornwall Police and Dorset Police.

2.1.2 Payroll information

It was recommended that a year-end reconciliation is performed to show the total staff costs actually incurred in the year, reconciled to cashflow and supporting the employee expense balance disclosed in the draft statements of accounts.

The payroll information from the payroll module is reconciled to the general ledger and to the bank on a monthly basis. The task is performed by an Accountancy Officer and quality assured by a Management Accountant.

2.1.3 Separation of the forces within the accounting system

It was recommended that the Alliance Finance accounting system should be reviewed.

A review of the accounting system by consultants concluded that complete separation of the accounting systems of the two forces was not necessary, but that changes should be made to the current system setup to address issues that have arisen. These changes were implemented in January 2019.

2.1.4 Strategic Alliance cost allocation process

Although the audit report stated that the accounting for the Strategic Alliance recharge process was thorough and no errors were found, it was felt it was overcomplicated. As such there was a recommendation to review the recharge mechanism.

The current alliance recharge process is regularly reviewed to ensure the accurate recording of accounting entries in each Force. Changes have been made to the presentation of the information for reporting purposes, creating more transparency.

This has been included in the Internal Audit Plan as an area for review in 2019/20.

2.1.5 Alignment of accounts preparation

A review of each of the PCCs' and Forces' accounts was recommended to create one template set of financial statements, with similar formatting and note consistency. This will aid the accounts production process in future years.

This work is currently in hand with both Forces accounts feeding from the same report.

2.2 **Accounting Code changes**

2.2.1 The accounting changes introduced by the 2018/19 Code are outlined below.

2.2.2 IFRS 9 – Financial Instruments

This accounting standard requires important changes to be made to the way in which we account for investments. In essence, the gains and losses on the sale of an investment can have genuine consequences, so the Ministry of Housing, Communities and Local Government (MHCLG) have determined that the financial consequence should impact on the revenue position which in turn impacts on the council tax precept. However, MHCLG has given a five year override for this accounting treatment which means that the financial consequences calculated are

put through the Comprehensive Income and Expenditure Statement and then reversed out into an unusable reserve resulting in no impact to the bottom line.

To aid the understanding of this complex standard, a training course delivered by CIPFA has been attended by the Managers in the Technical Team and a separate session held with Mark Swallow from Arlingclose. The accounting standard requires the opening balance position to be restated. This restatement applies to the note only and not the balance sheet. A working file has been prepared setting out the methodology and the workings for the restatement which also forms a template for the 31 March position. This is currently being reviewed by Mark Swallow and will be shared with Grant Thornton to seek their opinion on the approach taken.

2.2.3 IFRS 15 Revenue from Contracts with Customers

The core principle in IFRS 15 is that we should recognise revenue to depict the transfer of promised goods or services to the service recipient or customer in an amount that reflects the consideration to which the authority expects to be entitled in exchange for those goods or services. This standard excludes Government grants and Council Tax. CIPFA's view is that it will be immaterial for the Police Service due to the relatively predictable income streams but it may have an impact on authorities where the consideration is variable and/or when income is recognised over time e.g. construction contracts. Information gathering is underway to identify any significant contracts that meet this criteria.

2.2.4 IFRS 16 Leases

IFRS 16 establishes significant new accounting policies for lessees. It eliminates the current distinction between operating and finance leases as is required by IAS 17 Leases and, instead, introduces a single lessee accounting model. When applying the new model, the Group will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term for all leases with a lease term of more than 12 months.

Following an extensive consultation on the impact of the implementation of the new IFRS 16 standard, the CIPFA/LASAAC local authority accounting Code Board has deferred the effective date of implementation of IFRS 16 Leases to the 1 April 2020.

2.2.5 Accounting Policies

Accounting policies have been reviewed with only one minor change being proposed for implementation in the 2019/20 financial year.

Dorset Depreciation Policy

Historical practice for Dorset Police and Crime Commissioner has been to depreciate all vehicle additions during any financial year from the 1 October, resulting in six months of depreciation.

To enable a more accurate calculation to take place, it is proposed to change the current practice to calculate the depreciation on a monthly basis from the month following the date the vehicle is brought into use. This proposed policy will be consistent with the approach taken by Devon and Cornwall Police. This change will commence 1 April 2019 for the 2019/20 financial year. To understand the implications on the accounts of this change in policy, a comparison has been made of the actual depreciation charged in the 2017/18 accounts against the depreciation that would have been charged as per the proposed policy. The result is that an additional charge of £15k would have been required (although this would fluctuate depending on the actual timing of purchases in any one year). This difference is not material and falls below the audit thresholds for triviality. Therefore it is not proposed to make any restatement of prior year figures when the accounting policy change is introduced.

A change to the accounting policies note will be required. Outlined below is the current and proposed change for 2019/20.

The current depreciation policy for vehicles is stated as:

- Vehicles – are depreciated in equal annual instalments over the forecast useful life of the vehicle and depreciation in the first year will be six months.

The proposed change to this wording is as follows:

- Vehicles – are depreciated in equal monthly instalments over the forecast useful life of the vehicle and depreciation is calculated from the month following the date the vehicle is brought into use.

2.3 **Preparation of the 2018/19 Statement of Accounts**

2.3.1 Immediately following the production of 2017/18 final accounts, the technical accounting team started considering and preparing for the 2018/19 accounts. The starting point of this work stems from the feedback given during the close down

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period. From this feedback, three key areas were identified as requiring review and improvement.

- 2.3.2 A team development day attended by the Accountancy Team was held in December. A section of this day concentrated on the year end. The team generally felt that the overall close down process had gone well, with each individual being clear about their responsibility and contribution to the accounts.
- 2.3.3 The team then focused on the areas that require improving, namely: the accrual template; the use of the commitment information; and the location of the working papers.
- 2.3.4 Each year we review what goods and services have been received by the 31 March that have not yet been invoiced and reflect the associated cost or income in the accounts. This is known as an accrual. The accruals are captured in an accrual template which has been in use for a number of years. The template sets out the information required for the accruals being posted into the ledger but the format wasn't user friendly and it was very cumbersome to complete. A new template has been created to capture the same information as the old template, however it is much more user friendly and it is now more sophisticated with a significant number of cells being auto-populated, reducing the risk of error and miscoding. It also creates the accrual reversal. All of these steps has enhanced the process and made it more efficient. The new accrual template was fully tested before issuing to the team for populating. Training has also been provided.
- 2.3.5 The use of commitment information by the Accountancy team for close down and in year reporting needs to be progressed to reach a point whereby the team can run a commitment report and the data contained in it can be used directly to inform monitoring and the accruals with minimum analysis required. Discussions have been held with the team and the Accounts Payable manager to agree a way forward on recording commitments in Agresso as well as establishing "housekeeping" rules to ensure that the commitments are a true reflection of the current position.
- 2.3.6 For those pulling together the Statement of Accounts, the working files supporting the accounts need to be easily identifiable and stored centrally. A working file for each task has been created and a link to it inserted into the timetable against the relevant task. This clearly informs the team where they can find the working file and where it should be saved. The technical team have gone a step further by adding in the workings from the 2017/18 accounts to assist the team in preparing and producing the 2018/19 accounts. All of these steps help the process work more efficiently and aid those producing the Statement of Accounts booklets.
- 2.3.7 The valuation of land and buildings is a large estimated value in the Statement of Accounts and is an area that Grant Thornton identifies as being of significant risk. Procedures have been put in place to ensure that the engagement of the valuer to undertake the work and subsequent communications are fully documented. The accounting for revaluations is in the process of being passed to two Management

Accountants within the team which will allow the Senior Managers to quality assure the workings.

- 2.3.8 This year there will be an additional disclosure note in the Dorset Statement of Accounts for Transforming Forensics. The arrangement in place indicates that Dorset Police are acting as an intermediary which falls under the definition of an agent relationship. It is therefore proposed that the agent accounting treatment is applied which means that the transactions will not be reflected in the core statements to the accounts but information will be provided in a disclosure note.
- 2.3.9 The close down process and the production of the Statement of Accounts is discussed at the fortnightly team meetings. It is an opportunity to discuss progress, and to deliver training and gather feedback on the process. From the 1 April, more regular discussions will be held until the 31 July.

3. CONCLUSION

- 3.1 A number of changes have been introduced to make the year end process more efficient; steps have been taken to address the recommendations made by KPMG and the 2018/19 Statement of Accounts will incorporate IFRS9 and IFRS 15.

4. RECOMMENDATIONS

- 4.1 It is recommended that this report is noted.

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