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Our reference: DC

22 August 2013

AGENDA

TO: THE MEMBERS OF THE JOINT AUDIT AND STANDARDS COMMITTEE

CUMBRIA POLICE & CRIME COMMISSIONER AND CUMBRIA CONSTABULARY JOINT AUDIT AND STANDARDS COMMITTEE

A Meeting of the Joint Audit & Standards Committee will take place on **Monday 23rd September 2013** in **Conference Room Two**, Police Headquarters, Carleton Hall, Penrith, at **11 am.**

S Edwards
Chief Executive

Note: Members are advised that allocated car parking for the meeting is available in the Visitors Car Park to the left of the main Headquarters building.

Please note – there will be a seminar session for the committee members from 09.30am – 10.30am

Please note – there will be a meeting between External Audit and the committee members from 10.15am – 11am

COMMITTEE MEMBERSHIP

Mr Patrick Everingham (Chair)
Mrs Fiona Daley
Mr Andy Hampshire
Mr Jack Jones

Audit and Standards Committee Terms of Reference

Audit Activity

- To approve, but not direct the Annual Audit Plans.
- To consider the head of internal audit's annual report and opinion, and a summary of internal audit activity and the level of assurance it can give over the PCC's and Chief Constable's corporate governance arrangements.
- To consider internal and external audit and inspection reports and a report on the implementation of agreed audit recommendations.
- To consider reports dealing with the management and performance of the providers of internal audit services.
- To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance, ie the PCC and the Chief Constable, including the Annual Governance Statement and any changes to the local code of governance.
- To consider specific reports as agreed with the external auditor.
- To comment on the scope and depth of external audit work and to ensure it gives value for money.
- To commission and monitor the effectiveness of the work of the internal and external audit services.
- Advising on the appointment of external auditors.
- To meet privately and separately with External Auditors and Internal Auditors as required.
- To request relevant information from offices and seek their attendance at meetings.
- To review and determine Internal Auditors Terms of Reference.

Regulatory Framework

- To maintain an overview of the constitution in respect of contract procedures rules, financial regulations and codes of conduct and behaviour.
- To review any issue referred to it by the statutory officers of the PCC and/or the Constabulary statutory officers.
- To oversee the production of the PCC's and Chief Constable's Governance Statement and to recommend its adoption.
- To monitor OPCC and Constabulary arrangements for anti-fraud and corruption and the OPCC and Chief Constable's complaints processes.
- To oversee the arrangements for corporate governance and agree necessary actions to ensure compliance with best practice.
- To consider the PCC and Chief Constable's compliance with its own and other published standards and controls.

Financial Reporting

- To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns

arising from the financial statements or from the audit that need to be brought to the attention of the PCC/Chief Constable.

- To consider the external auditor' report to those charged with governance on issues arising from the audit of accounts and to report these to the OPCC and Chief Constable.
- To scrutinise reports dealing with treasury management activity in compliance with the treasury management code of practice and prior to their approval by the Police & Crime Commissioner.

Corporate Risk Management

- To monitor the effective development and operation of risk management within the OPCC and Constabulary.
- Approving the OPCC and Constabulary corporate risk management strategy and framework; ensuring that an appropriate framework is in place for assessing and managing key risks to the OPCC and Constabulary.
- To assess, monitor and manage risks as to the Committee's effectiveness.

Standards Activity

- Monitoring the operation and effectiveness of the PCCs' Code of Conduct
- Monitoring the operation and effectiveness of the PCC's /Officer Protocol.
- Granting dispensation to the PCC from requirements relating to interest set out in the PCC's Code of Conduct.
- To hear and determine appeals in relation to the OPCC's personnel policies and decisions of the Chief Executive where appropriate.
- To hear and determine appeals by Independent Custody Visitors and Independent Members of Police Misconduct Panels from decisions of the Chief Executive.

Miscellaneous

- To receive any reports as necessary to the fulfilling of the statement of purpose and terms of reference
- To periodically review the effectiveness of the committee in fulfilling its role.
- Update from the Chief Finance Officers on current financial issues/developments.

AGENDA

PART 1 – ITEMS TO BE CONSIDERED IN THE PRESENCE OF THE PRESS AND PUBLIC

1. PRIVATE EXTERNAL AUDIT MEETING

2. APOLOGIES FOR ABSENCE

3. URGENT BUSINESS AND EXCLUSION OF PRESS AND PUBLIC

To consider (i) any urgent items of business and (ii) whether the press and public should be excluded from the Meeting during consideration of any Agenda item where there is likely disclosure of information exempt under s.100A(4) and Part I Schedule A of the Local Government Act 1972 and the public interest in not disclosing outweighs any public interest in disclosure.

4. DISCLOSURE OF PERSONAL INTERESTS

Members are invited to disclose any personal/prejudicial interest which they may have in any of the items on the Agenda. If the personal interest is a prejudicial interest, then the individual member should not participate in a discussion of the matter and must withdraw from the meeting room unless a dispensation has previously been obtained.

5. MINUTES OF MEETING

To receive and approve the minutes of the meeting held on Monday 24th June 2013 and committee action sheet (copies enclosed)

6. ANNUAL GOVERNANCE STATEMENT

To receive from Grant Thornton the Annual Governance Statement – *(Committee to consider)*

7. STATEMENT OF ACCOUNTS 2012-13

To receive the audited Statement of Accounts and Annual Governance Statements and a copy of the non-statutory version of the accounts *(Committee to review)*

(i) The Police and Crime Commissioner for Cumbria – To be presented by the Commissioner's Chief Finance Officer

(ii) Group Accounts – To be presented by both the Commissioner's and Constabulary's Chief Finance Officers

(iii) The Chief Constable for Cumbria Constabulary – To be presented by the Constabulary's Chief Finance Officer

8. MONITORING OF AUDIT, INTERNAL AUDIT AND OTHER RECOMMENDATIONS AND ACTION PLANS

To receive an updated summary of actions implemented in response to audit and inspection recommendations – To be presented by Constabulary Chief Finance Officer (copy enclosed) (*Committee to consider)*

9. PUBLIC SECTOR INTERNAL AUDIT STANDARDS PAPER

To receive a report from the Management Audit Unit - To be presented by the Audit Manager (copy enclosed) *(Committee to consider)*

10. INTERNAL AUDIT PLAN 2012-13 – PROGRESS REPORT

To receive a report from the Management Audit Unit regarding the progress of the Internal Audit Plan - To be presented by Audit Manager (copy enclosed) (*Committee to consider)*

11. INTERNAL AUDIT REPORTS

To receive reports from the Management Audit Unit regarding audits undertaken (copies enclosed) (*Committee to consider)*

i. Data Quality
ii. Territorial policing areas
iii. Treasury Management
iv. Police Appleby Incident

12. TREASURY MANAGEMENT ACTIVITIES 2013-14 – APRIL TO JULY 2013

To receive a report on treasury management activities for April - July 2013 (copy enclosed) – To be presented by the Accountancy Services Manager *(Committee to scrutinise)*

13. STRATEEGIC RISK

To receive the Strategic Risk Registers for:

(i) Office of the Police & Crime Commissioner (copy enclosed)
(ii) Joint Audit and Standards Committee (copy enclosed)

14. FUTURE MEETING DATES

PART 2 – ITEMS TO BE CONSIDERED IN THE ABSENCE OF THE PRESS AND PUBLIC

15. STRATEGIC RISK

To receive the Strategic Risk Registers for:

(i) Cumbria Constabulary (copy enclosed)

16. STATEMENT OF ACCOUNTS 2012-13

To receive the letter of Management Representation in support of the Statement of Accounts 2012-13 – To be presented by the Commissioner's Chief Finance Officer

CUMBRIA POLICE & CRIME COMMISSIONER AND CUMBRIA CONSTABULARY

JOINT AUDIT & STANDARDS COMMITTEE

Minutes of a Meeting of the Joint Audit & Standards Committee held on Monday 24th June 2013 in Conference Room 2, Police Headquarters, Carleton Hall, Penrith, at 10:30 am

PRESENT
Mr Patrick Everingham (Chair)
Mrs Fiona Daley
Mr Andy Hampshire
Mr Jack Jones

Also present:
Chief Internal Auditor, Management Audit Unit, Cumbria County Council (Niki Riley)
Audit Manager, Management Audit Unit, Cumbria County Council (Emma Toyne)
Engagement Lead, Grant Thornton UK (Gina Martlew)
Engagement Manager, Grant Thornton UK (Richard McGahon)
T/Deputy Chief Constable (Michelle Skeer)
Constabulary Chief Finance Officer (Roger Marshall)
Accountancy Services Manager (Michelle Bellis)
OPCC Chief Finance Officer (Ruth Hunter)
Budget & Finance Assistant (Dawn Cowperthwaite)
Governance & Business Services Manager (Joanne Head)

PART 1 – ITEMS CONSIDERED IN THE PRESENCE OF THE PRESS AND PUBLIC

30. APOLOGIES FOR ABSENCE

No apologies for absence were received as all members were present.

31. URGENT BUSINESS AND EXCLUSION OF THE PRESS AND PUBLIC

There were no items of urgent business to be considered by the Committee.

RESOLVED, that under section 100A(4) of the Local Government Act 1972, (as amended), the press and public be excluded from the meeting during consideration of the following items on the grounds that they involve the likely disclosure of exempt information as defined in the paragraph indicated in Part 1 of Schedule 12A to the Act –

Item No	Item	Paragraph No
13	Strategic Risk Registers	3 & 7

32. DISCLOSURE OF PERSONAL INTERESTS

There were no disclosures of any personal interest relating to any item on the Agenda.

33. MINUTES OF MEETING

The minutes of the meeting held on 21st March 2013 had been circulated with the agenda. The following comments and requests were made.

A member asked if it was possible for the committee to have sight of the minutes within a reasonable time following the committee meeting rather than current practice of receiving the minutes with the meeting papers. It was agreed that these would be circulated to the members once they had been prepared.

In relation to Minute No 25(v) Temporary Deputy Chief Constable asked that the wording in paragraph 3 be amended from 'It was the Constabulary's intention to increase' to 'It was the Constabulary's intention to maintain'.

With regard to Minute 27, paragraph 4 a member asked for clarity on what were the restrictions that had been removed. The OPCC Chief Finance Officer Confirmed that the wording would be amended, the following wording was put in place.

"Previously investments had been restricted to AAA rated money market funds, the Debt Management Office and other Local Authorities. The current position is that the criteria has been relaxed for investment counterparties." Such that the minimum rating is A- for invetsing with Banks and Building Societies.

RESOLVED, that,

(i) the minutes of the meeting held on 21st March 2013 be approved, subject to the above amendments; and

(ii) the members of the committee be provided with a copy of the minutes of the meeting within a reasonable timescale following the meeting.

34. ARRANGEMENTS FOR GOVERNANCE 2012-13

The Office of the Police and Crime Commissioner's (OPCC) Chief Finance Officer took members through the reports providing an overview of the governance arrangements for 2012-13. It was highlighted that whilst there would be one set of group accounts there would be 3 governance statements; one for the Commissioner, one for the Constabulary and a third for the Police Authority up to and including 21st November 2013. It was felt that it was not appropriate for there to be only one governance document as the functions of the three entities were very different.

Annual Governance Statement / Code of Corporate Governance

A member asked for clarification as to what was expected from the Committee with regards to `The Police & Crime Commissioner for Cumbria Governance Statement 22nd November 2012-13' as the wording in the work programme issued in November stated that the committee were responsible for adopting the statements. The OPCC Chief Finance Officer confirmed that the Committee were able to make comments and recommendations to the Commissioner but that he had already adopted the statement. The terms of reference would need updating to reflect this.

The OPCC Chief Finance Officer highlighted that the CIPFA guidance was based on local authority arrangements and that the Commissioner and Chief Constable were in a unique position. In future years it would be possible for the Committee to either review the documents / arrangements prior to formal approval by the Commissioner and Chief Constable (pre-scrutiny). In this case they could recommend the documents for approval and/or make recommendations with regard to their amendments. An alternate approach would be to review the documents post adoption by the Commissioner and Chief Constable making recommendations for any amendments that could then be incorporated between the Audit Committee review and final publication of the documents with the accounts in September.

A member commented that they felt that the committee could add most value pre-scrutiny.

A member queried the date of 2013/14 on the front of the report entitled Code of Corporate Governance. The OPCC Chief Finance Officer confirmed that the report was an updated version of the one in place on 22nd November 2012, it covered the duration June 2013 to June 2014 and this would be reviewed as part of the Annual Governance Statement. Currently the Code of Corporate Governance followed the national model and CIPFA guidance, this inevitably resulted in a lot of repetition. This would be reviewed prior to next year to see if there was a different way of compiling the documents. A member queried the dates within the Annual Governance Statement action plan. The Chief Finance Officer confirmed that the action plan did extend beyond the next financial year but would ensure the dates were reviewed to ensure their accuracy.

The Engagement Lead commented that it was good that the Commissioner had adopted the statement and that the Committee had time to comment prior to their being signed off in September. They also commented that there was nothing in the governance statements regarding the suspension of the Temporary Chief Constable and questioned whether there should be something in place whereby amendments could be made to the Annual Governance Statement (AGS), if required. It was agreed that this would be considered. The OPCC Chief Finance Officer commented that discussions were on-going as to the reporting of the issue within the statement of accounts.

The Engagement Manager commented that he would expect to see some commentary within the accounts as to the salary expense of both the Temporary Chief Constables.

With regard to agenda item 5e – A Joint Code of Corporate Governance for Cumbria Police Authority and Cumbria Constabulary a member queried the dates given in Section 4 ie, 2012-13. The PCC Chief Finance Officer agreed to review the dates across the documents.

The Constabulary's Chief Finance Officer highlighted that agenda item 5f (The Chief Constable for Cumbria Constabulary Effectiveness of Governance Arrangements 2012/13) broadly followed the same principle as those in the Commissioner's Governance Statement**.** He advised that unlike the Commissioners Governance Statement the Constabulary's did not contain an action plan, however any issues were raised within the document. This was something that would be distilled into an action plan in future years. A member asked whether the Constabulary's Chief Finance Officer was a member of the Chief Officer Group, which Temporary Deputy Chief Constable Skeer confirmed he was.

Effectiveness of Internal Audit

With regard to the review of effectiveness of the arrangements for Audit a member asked how this would affect the Commissioner being audited. The OPCC Chief Finance Officer highlighted that previously the organisation was a single entity and that now the Internal Audit Unit would have to consider both the Commissioner and the Chief Constable as separate entities and issue separate audit opinions, although there would be a joint programme of audit. An audit universe was being developed which would assist the scope for audit planning. A member commented that they would welcome a more tailored approach for next year and asked if there would be the same level of service for the Chief Constable and the Commissioner. The Chief Internal Auditor confirmed that there would be an assessment on how the service would be provided but confirmed that the level of service and quality of output would remain the same.

RESOLVED, that, the

(i) Members note the reports and would provide comments following the meeting.

35. GRANT THORNTON AUDIT FEES 2013-14

The Engagement Lead presented the audit fees and payment schedule letters for both the Commissioner and the Constabulary. A key point noted was that the fees for 2013-14 showed a reduction of just under £4,000 from the previous year.

RESOLVED, that, the update be noted.

36. GRANT THORNTON – JOINT AUDIT PLAN 2012 – 13

The Engagement Manager presented the Joint Audit Plan for 2012-13. It was a joint audit plan for the Commissioner and Constabulary. There were several key issues identified which the Engagement Manager highlighted to members as he guided them through the report.

A member asked for clarification on the meaning of 'Whole of Government Accounts'. The Engagement Manager clarified that these accounts were the national culmination of Police, NHS, Local Government and Central Government into one set of accounts.

A member commented that there seemed to be an emphasis in the risk section of the audit plan on understatement of expenditure rather than just misstatements as a whole. The Engagement Manager confirmed that although both understatements and overstatements could exist, the risk of understatements of expenditure were higher.

A member commented that Internal Audit provided a good service and asked if Grant Thornton conduct their own tests or if they solely relied upon those of Internal Audit. The Engagement Manager confirmed that in some cases, such as Police Officer Pensions, they found it more reliable and efficient to use the work completed by Internal Audit, whereas in other situations it was more appropriate for them to conduct their own testing of systems.

RESOLVED, that, the update be noted.

(Note: There was a break from 12.10 pm to 12.15 pm when the same officers and members were present)

37. MONITORING OF AUDIT, INTERNAL AUDIT AND OTHER RECOMMENDATIONS AND ACTION PLANS

The Constabulary's Chief Finance Officer took members through the report providing an update on items that had exceeded their target date.

(i) <u>Creditors February 2012</u>

The Constabulary's Chief Finance Officer advised that the scheme of delegation had been changed resulting in more budgets being centralised. There had been a delay in formalising the funding agreements between the Commissioner and the Constabulary but that these were now in place. Collation of the budget delegations was currently ongoing but had been delayed due to the production of the final accounts.

The Commissioner's Chief Finance Officer clarified that the issues regarding the financial rules were not a result of there being no financial regulations in place but merely that they have not yet been brought fully up to date to reflect the changes in the organisation. All governance documents will require revision to reflect stage 2 transfers during 2013/14.

(iii) Partnerships November 2011

One Value For Money exercise was still to be completed as future responsibilities in relation to this partnership were currently being assessed.

(vii) Main Financial Systems

A combination of resources and other priorities had not permitted the automatic system based process to sign off significant journals which should have been put in place at the start of the year. In the interim, significant journals were being signed off retrospectively. The setting up of the automatic process was scheduled for July 2013.

(iv) Data Quality – Crime and Incident Recording

The Temporary Deputy Chief Constable gave a review of the implemented actions to date.

i. A Crime Management Governance Board had been set up to oversee the approach to improving crime management processes
ii. A Crime Desk Review and implementation team had been established
iii. The Crime Management Unit had been re-located into the Communications Centre to improve connectivity
iv. Live time audits have been re-introduced for priority crimes (using dip sampling)
v. Introduction of a Performance Framework
vi. Regular updates to raise staff awareness

A member asked if the dip sampling was given extra weight in areas where issues had previously been identified. The T/Deputy Chief Constable confirmed that this was the case.

One member asked how involved or aware the Commissioner was with regards to the review. The OPCC Chief Finance Officer confirmed that all Grade 1 recommendations were taken to the Executive Board where the Commissioner would have sight of them and updates on the action plan.

RESOLVED, that,

(i) the contents of the report be noted;

(Note: The Engagement Lead left the meeting at 12.30pm)

38. INTERNAL AUDIT – ANNUAL REPORT

The Audit Manager presented the Head of Internal Audit's annual opinion on the effectiveness of the internal control environment for Cumbria Office of the Police and Crime Commissioner and Cumbria Constabulary. She guided members through the report highlighting several key points.

Internal controls were operating satisfactorily. Of the total audit plan 83% had been completed within the year with three pieces of working being carried forward to the 2013-14 plan. Fourteen audits had been completed throughout the year with eight achieving a `Good' rating, five achieving `Satisfactory' and one receiving `Fair'. No audits had been attributed as `Weak'. Two Grade 1 recommendations were made in the review of the Crime and Incident recording data quality and these would be followed up by Internal Audit as part of the in 2013-14 audit work.

RESOLVED, that the contents of the report be noted.

39. INTERNAL AUDIT REPORTS

(i) Budget Management and Main Accounting System

In March 2013 an internal audit of the Constabulary's budget management and main accounting system had taken place. An overall evaluation of 'Satisfactory' for budget management and 'Good' for main accounting system had been given with no major areas of concern identified as a result of the audit testing. The following recommendations were made.

i. Grade 2 – (Budget Management) Virements should only be processed following appropriate approval
ii. Grade 3 – (Budget Management) Budget responsibilities and delegations should be fully and consistently documented
iii. Grade 3 – (Budget Management) Care should be taken to ensure all figures provided by Financial Services Officers in the monthly returns are incorporated into the management accounts
iv. Grade 2 – (Main accounting system) Appropriate arrangements should be put in place to ensure that bank account reconciliations are undertaken on a timely basis during staff absence and peak pressures

A member asked what the rationale was for making point (iii) above a grade 3 recommendation rather than a grade 2. The Audit Manager confirmed that during testing they were satisfied that the processes were in place but that there were some exceptions. They asked the Officers how they felt about this and how long they thought it would take to correct any issues. The Chief Constable's Chief Finance Officer advised that work had been done on this and would be completed by the finance department as soon as possible. A member stated that they believed the recommendation to be borderline and would welcome further confirmation in the future that it had been dealt with. It was agreed the actions would be included in the audit committee monitoring arrangements.

(ii) Debtors and Income

An Internal Audit in relation to the controls in place for the debtors and income systems had been undertaken as part of the internal audit plan. The overall evaluation for Income was `Good' with one Grade 2 and one Grade 3 recommendation being made. The overall evaluation for Debtors was 'Satisfactory' with three Grade 2 recommendations being made.

(iii) Oracle Financials Security

As part of the internal audit plan an audit review of Oracle Financials Security has been carried out. The overall evaluation was 'Satisfactory' with six Grade 2 and one Grade 3 recommendations being made.

(iv) Allowances and Special Payments (Winsor Review)

An Internal Audit regarding Allowances and Special Payments had been undertaken in May 2013 as part of the internal audit plan. The overall evaluation had been graded as `Good' with no recommendations being made.

RESOLVED, that the contents of the internal audit reports be noted.

40. INTERNAL AUDIT – ANNUAL GOVERNANCE STATEMENTS

The Audit Manager presented a report which confirmed that the Annual Governance Statement for the Cumbria Office of the Police & Crime Commissioner had been prepared in accordance with statutory guidance, consistent with CIPFA guidelines. Two separate governance statements had been prepared in order that the governance arrangements could be set out for the year. A joint Cumbria Police Authority and Cumbria Constabulary governance statement had been prepared to 21 November 2012. A separate governance statement detailed the arrangements in place for the Police and Crime Commissioner since they took up office on 22 November 2012.

The Internal Audit confirmed that the Chief Constable's Annual Governance Statement had been prepared by statutory and senior officers and would be signed by the Temporary Chief Constable.

RESOLVED, that, the reports be noted.

41. TREASURY MANAGEMENT ACTIVITIES FOR MARCH 2013 AND ANNUAL REPORT 2012/13

The Accountancy Services Manager presented to members the Treasury Management Activities for March 2013 and Annual Report 2012/13.

Members were guided through Treasury Management Activities which had taken place in March 2013. There had been one instance where a large sum of money had remained un-invested overnight, the interest lost as a result of this non-investment was approximately £1.53.

Within the Treasury Management Strategy a target is set to achieve a daily balance of +/- £2k on the Commissioner's main bank account. The daily Treasury Management process always calculates the anticipated balances but daily transactions through the bank of which the team are previously unaware can mean that this target is not always met. In 2012/13 this target was met on 280 out of 365 days (70%).

The Accountancy Services Manager talked through the Treasury Strategy highlighting that in 2012/13 the strategy was to be cautious and only invest with 'A+' rated counterparties. In February 2013 the situation had stabilised a little and a new strategy was approved by the Commissioner. This allowed investment with counterparties with a minimum rating of 'A-', resulting in several banks which had previously been excluded were now available for investment.

A member asked if since the relaxing of the strategy there was a visible improvement on returns. The Accountancy Services Manager confirmed they were on track to beat projected income. Another member suggested that it would be interesting to see how much the Commissioner was forecast to invest in the current financial year and how this compared on a year on year basis. The PCC Chief Finance Officer confirmed that forward investment balance projections were calculated but needed to be viewed with some caution. A member commented that being slightly less risk averse appears to be paying off.

Another member asked about the possibility of having another session with the Commissioner's financial advisors, Arlingclose, to build on their previous seminar. This was discussed and although agreed upon by all members it was not felt that this should overtake other planned seminars.

RESOLVED, that,

(i) the contents of the Treasury Management Annual Report be noted; and

(ii) Treasury Management Activities for March 2013 be noted.

42. REVIEW OF AUDIT AND STANDARDS COMMITTEES FOR MOST SIMILAR FORCES

The Committee Chair had been concerned about what arrangements other forces had in place with regards to their Audit and Standards Committees and so wrote to our most similar forces to ask what arrangements they had in place.

All of the forces contacted had replied candidly and were happy to network in the future.

The Chair ran through the responses detailed within the report. Cumbria seemed well ahead in respect of some arrangements and were within mean averages on many areas. It was

suggested that there would need to be a discussion with the OPCC regarding the possibility of networking with other committees. The Chair thanked the OPCC for getting them to where they were.

RESOLVED, that, the contents of the report be noted.

PART 2 – ITEMS CONSIDERED IN THE ABSENCE OF THE PRESS AND PUBLIC

29. STRATEGIC RISK

(i) Cumbria Constabulary Strategic Risk Register

The T/Deputy Chief Constable guided members through the amendments that had been made to the risk register since it was last seen by the Committee. A member queried why the risk reference numbers were not consecutive. The T/Deputy Chief Constable confirmed that the strategic risk register was part of a much larger register (including department and program level risks) and had been pulled out to make this report, as a result of this the numbers were not sequential to this register but were from where they sat within the other registers.

A member commented on the high score of a risk and asked how this was being addressed. The T/Deputy Chief Constable stated that this risk was due to be addressed in the near future and was being constantly monitored.

RESOLVED, that the Constabulary's Strategic Risk Register be noted.

(ii) Office of the Police & Crime Commissioner Strategic Risk Register

The OPCC Chief Finance Officer presented a copy of the OPCC's strategic register. Members were advised that the register had been reviewed and updated where appropriate.

In relation to strategic risk No 6 – The risk score has been amended as previously there was a higher score following mitigation than before.

RESOLVED, that,
(i) the reviews and scores be noted; and

(T/DCC Skeer, Mr Roger Marshall, Ms Michelle Bellis, Ms Dawn Cowperthwaite, Ms Ruth Hunter, Ms Joanne Head, Ms Gina Martlew, Ms Emma Toyne, Ms Niki Riley and Mr Richard McGahon left the meeting at this point

(iii) Joint Audit & Standards Committee

The members met privately to discuss the risks identified within their risk register and then score the risks appropriately.

RESOLVED, that the register be approved and the risks scored appropriately.

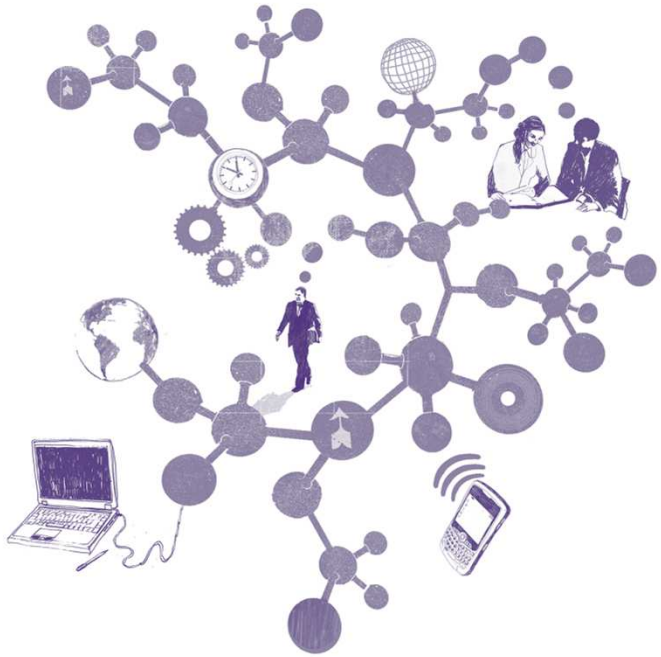
Meeting ended at 1.30 pm

Signed: _____ **Date: _____**

The Audit Findings Report for The Police and Crime Commissioner for Cumbria and The Chief Constable for Cumbria Constabulary

Year ended 31 March 2013

September 2013



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Section 1: Executive summary

01. Executive summary
02. Audit findings
03. Value for Money
04. Fees, non-audit services and independence
05. Communication of audit matters

Executive summary

Background

The Police Reform and Social Responsibility Act 2012 created the post of Police and Crime Commissioner (PCC), a directly-elected official responsible for setting policing priorities and holding their local Chief Constable to account in delivering these, in 42 of the 43 police areas in England and Wales. The first elections were held on 15 November with elected PCCs taking office on 22 November 2012, replacing the police authority arrangements that had existed previously in each area from this date.

The 2012 Act stipulates that both the PCC and Chief Constable for each police area be established as corporations sole, and as such both are required to prepare individual financial statements subject to audit under the Audit Commission Act 1998. In accordance with merger accounting principles, the PCC and the Chief Constable have prepared their financial statements for 2012/13 with effect from 1 April 2012.

Purpose of this report

As the external auditor appointed to both the PCC and the Chief Constable for Cumbria we are required by the Audit Commission's Code of Audit Practice to report our audit findings to the PCC and the Chief Constable as the individuals charged with governance for the office of the PCC and the Constabulary respectively. This document, our Audit Findings Report, summarises the key findings and recommendations from our audits of the PCC and the Chief Constable in one place.

We report whether, in our opinion, the PCC's and Chief Constable's financial statements for the year ended 31 March 2013 present a true and fair view of the financial position, their expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We issue separate audit opinions on the financial statements of the PCC (which includes the Group accounts) and the Chief Constable.

We also report whether the PCC and Chief Constable have put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources for the year ended 31 March 2013, referred to as the Value for Money conclusion. We issue separate conclusions for the PCC and the Chief Constable based on our assessment of the arrangements each has established.

Key messages – both audits

The financial statements were well prepared and of a good standard, especially given the major changes required for 2012/13 in terms of preparing separate PCC, PCC Group and CC statements. Working papers were of a good standard. Our audit is substantially complete although we are finalising our work in the following areas:

- our view on several technical accounting issues relating to the treatment of IAS19 in the Chief Constable's accounts and the funding from the PCC
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- review of final version of the Annual Governance Statements
- updating our post balance sheet events reviews, to the date of signing the opinions
- review of the Whole of Government Accounts (WGA) statements.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

In the conduct of our audits we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan presented to the Joint Audit and Standards Committee on 24 June 2013.

Whole of Government Accounts (WGA)

We plan to complete our work in respect of the Whole of Government Accounts so that we can certify the audit as complete at the same time as we sign the PCC and CC financial statements.

Executive summary

Key messages – audit of the Office of the Police and Crime Commissioner for Cumbria (PCC)

Financial statements opinion

We expect to issue an unqualified opinion on the Police and Crime Commissioner's financial statements, including the group accounting statements which consolidate the financial activities of the Chief Constable, by 30 September 2013.

Our audit has not identified any adjustments to the PCC's financial statements which would affect the PCC's reported financial position, subject to finalising our view on several technical accounting issues. However, we have made a number of other adjustments, relating to reclassifications and disclosure changes, but not altering the reported financial performance.

We have included further details of our financial statements audit findings, including details of the adjustments referred to above, in section 2 of this report.

Value for money conclusion

Based on our review of the PCC's arrangements to secure economy, efficiency and effectiveness in their use of resources, we expect to give an unqualified Value for Money conclusion on the same date as our opinion on the financial statements.

We have set out further details of the findings and recommendations from the work supporting our Value for Money conclusion in section 3 of this report.

Key messages – audit of the Chief Constable

Financial statements opinion

We expect to issue an unqualified opinion on the Chief Constable's financial statements, including the police officer pension fund accounting statements, by 30 September 2013.

Our audit has not identified any adjustments to the CC's financial statements which would affect the CC's reported financial position, subject to finalising our view on several technical accounting issues. However, we have made a number of other adjustments, relating to reclassifications and disclosure changes, but not altering the reported financial performance.

We have included further details of our financial statements audit findings, including details of the adjustments referred to above, in section 2 of this report.

Value for money conclusion

Based on our review of the CC's arrangements to secure economy, efficiency and effectiveness in their use of resources, we expect to give an unqualified Value for Money conclusion on the same date as our opinion on the financial statements.

We have set out further details of the findings and recommendations from the work supporting our Value for money conclusion in section 3 of this report.

Internal control

The PCC and the Chief Constable are responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control. Management has operated a common set of financial systems and controls to produce both sets of financial statements for 2012/13. Our work on material financial systems used to prepare the financial statements has therefore supported our audits of both the PCC and the Chief Constable. Our audit is however not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the PCC and to the Chief Constable.

We draw your attention in particular to control issues identified in relation to the completeness and documentation of your assessment of related party transactions.

We have provided further details of our findings in relation to internal controls in section 2 of this report.

The way forward

The findings and recommendations contained in this report have been discussed and agreed with the PCC Chief Finance Officer / Deputy Chief Executive and the Head of Financial Services as well as the Police and Crime Commissioner and the Chief Constable as the two individuals charged with overall governance for the offices of the PCC and the Constabulary respectively.

We have made only one recommendation in this report and included it in the action plan (Appendix A), with details of timescales and the officers responsible for implementing it provided by management. This recommendation applies to both the Police and Crime Commissioner and the Chief Constable.

Acknowledgment

We would like to thank finance staff and other officers in both the office of the PCC and Constabulary for their assistance over the course of this year's audits. The introduction of new arrangements within the police sector, and limited guidance, has meant that producing the 2012/13 financial statements has been a significant challenge. The dedication and commitment of the finance staff ensured the three sets of financial statements were produced by the deadline with clear consideration given to the technical accounting issues.

Grant Thornton UK LLP
September 2013

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Audit findings

Audit of the financial statements

In this section of the report we present our findings in respect of our audit of the PCC's and Chief Constable's financial statements, including our conclusions in respect of the significant audit risks (see page 10) and other audit risks (see page 12) we reported to the PCC and the Chief Constable in our Audit Plan on 12 June 2013 and received by the joint Audit and Standards Committee on 24 June 2013. We have summarised our audit findings against each entry in the financial statements in more detail at Appendices D. We have not made any changes to our Audit Plan reported to you previously.

Audit opinion

Pending completion of the outstanding audit work summarised below we expect to issue an unqualified opinion on both the PCC's financial statements, including the group accounting statements which consolidate the financial activities of the Chief Constable; and the Chief Constable's financial statements, including the police officer pension fund accounting statements, by 30 September 2013.

Accounting changes arising from the Police Reform and Social Responsibility Act 2012

This has been a challenging year for police finance teams who have needed to invest considerable time and effort preparing separate financial statements for the PCC and for the Chief Constable which reflect developing local governance and working arrangements and emerging accounting guidance. We recognise this has not been easy.

Chief Finance Officers in both the office of the PCC and the Constabulary have needed to work closely with one another, with the finance team and with senior management across both organisations to understand the nature of developing governance and joint working arrangements and how these should be accounted for in accordance with relevant financial reporting standards. Overcoming these challenges to produce materially accurate financial statements on time has therefore been a particular achievement this year.

Status of audit work

At the date of this report our audit testing is complete except for the following areas which we are currently finalising and expect to complete by 23 September 2013:

- our view on several technical accounting issues relating to the treatment of IAS19 in the Chief Constable's accounts and the funding from the PCC
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- review of final versions of the Annual Governance Statements
- updating our post balance sheet events reviews, to the date of signing the opinions
- auditing the Whole of Government Accounts submission.

If any significant matters arise from the remaining testing we will report these to the PCC / Chief Constable, as appropriate, before finalising the audit.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Relevant to? PCC/CC/Both	Work completed	Assurance gained and issues arising
1.	**Improper revenue recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	Both	**Both PCC and Chief Constable audits** • review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions	**PCC audit** Our audit work has not identified any issues in respect of revenue recognition. **Chief Constable audit** Our audit work has not identified any issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls	Both	**Both PCC and Chief Constable audits** • review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions	**PCC audit** Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgments. **Chief Constable audit** Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgments.

Audit findings against significant risks

	Risks identified in our audit plan	Relevant to? PCC/CC/Both	Work completed	Assurance gained and issues arising
3.	**Accounting for the Transition to Police and Crime Commissioners** The financial statements need to account for the transfer of functions from abolished police authorities and reflect the new governance and accountabilities envisaged by the Act. The unusual circumstances and accounting judgements required increased the risk that material transactions would not be accounted for in the most appropriate set of financial statements.	Both	**Both PCC and Chief Constable audits** • Early discussions of technical accounting issues including the principles of merger accounting and the application of group accounts. • Review of the accounting entries in both the PCC and CC accounts and the basis for their treatment in each set of accounts.	**PCC audit** We are satisfied with the accounting treatment for non current assets and staff costs. We are still reviewing the accounting treatment for IAS19 and the funding of this by the PCC. **Chief Constable audit** We are satisfied with the accounting treatment for non current assets and staff costs. We are still reviewing the accounting treatment for IAS19 and the funding of this by the PCC.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Relevant to: PCC/CC/Both	Description of risk	Work completed to date	Assurance gained & issues arising
Operating expenses	Both	Creditors understated or not recorded in the correct period	**PCC and Chief Constable audits** • Documented our understanding of processes and key controls over the transaction cycle • Undertook walkthrough of the key controls to assess the whether those controls are designed effectively • Substantively tested operating expenses	**PCC audit** Our audit work has not identified any significant issues in relation to the risk identified. **Chief Constable audit** Our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration	Both	Employee remuneration expenditure understated	**PCC and Chief Constable audits** • Documented our understanding of processes and key controls over the transaction cycle • Undertook walkthrough of the key controls to assess the whether those controls are designed effectively • Undertook testing of key controls and attribute testing.	**PCC audit** Our audit work has not identified any significant issues in relation to the risk identified. **Chief Constable audit** Our audit work has not identified any significant issues in relation to the risk identified.
Property, plant & equipment	PCC	Revaluation measurement not correct	**PCC audit** • Documented our understanding of processes and key controls over the transaction cycle • Undertook walkthrough of the key controls to assess the whether those controls are designed effectively • Substantively tested revaluations	**PCC audit** Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks (continued)

Transaction cycle	Relevant to? PCC/CC/Both	Description of risk	Work completed	Assurance gained & issues arising
Pension Contributions Receivable	Chief Constable	Recorded contributions not correct	• Documented processes and key controls • Evaluation and walkthrough of the key controls • Substantively tested pension contributions	Our audit work has not identified any significant issues in relation to the risk identified.
Pensions Membership Data	Chief Constable	Actuarial amounts not determined properly Member data not correct Regulatory, legal and scheme rules / requirements not met	• Documented processes and key controls • Evaluation and walkthrough of the key controls • Reconciliation of opening to closing membership numbers • Substantive testing of pension contributions • Review of the output of the pension scheme actuary and resulting accounting entries	Our audit work has not identified any significant issues in relation to the risk identified.
Pensions Benefits Payable	Chief Constable	Benefits improperly computed / Claims liability understated	• Documented processes and key controls • Evaluation and walkthrough of the key controls • Sample testing of the accuracy of new pensions in payment (including lump sums).	Our audit work has not identified any significant issues in relation to the risk identified.

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included within the PCC's financial statements.

Accounting area	Relevant to? PCC/CC Both	Summary of policy	Comments	Assessment
Revenue recognition	**Both**	**PCC** • The PCC has adopted the standard revenue recognition policies as set out in the Code of Practice. **Chief Constable** • The Chief Constable receives no income directly but is funded by a contribution from the PCC.	**PCC audit** • The PCC's policies are in accordance with the requirements of the Code of Practice for Local Government. **Chief Constable audit** • The CC's policy reflects the actual and expected revenue recognition arrangements in place.	 Green
Cost recognition	**Both**	**PCC** • The PCC has adopted the standard cost recognition policies for Local Government as set out in the Code of Practice. • The policies for cost recognition are set out in accounting policy 2. **Chief Constable** • The policies for cost recognition are set out in accounting policy 2.	**PCC audit** • The PCC's policies are in accordance with the requirements of the Code of Practice for Local Government. **Chief Constable audit** • The CC's policies are in accordance with the requirements of the Code of Practice for Local Government.	 Green

Assessment

- Red - Marginal accounting policy which could potentially attract attention from regulators
- Amber – Accounting policy appropriate but scope for improved disclosure.
- Green - Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates & judgements (continued)

Accounting area	Relevant to? PCC/CC Both	Summary of policy	Comments	Assessment
Judgements and estimates	**Both**	**PCC** Key estimates and judgements include: – pension fund valuations – Property revaluations – Debtors – Provisions **Chief Constable** Key estimates and judgements include: – pension fund valuations – Provisions	**PCC audit** • The policies and judgements are reasonable and appropriately disclosed. • Policies and judgements are in line with the requirements of the Code of Practice • Note 1 to the accounts sets out critical judgements in applying accounting policies • Note 3 to the accounts sets out assumptions made about the future and other major sources of estimation uncertainty. This includes an assessment of the likely impact if actual results differ from assumptions. • Accounting polices in relation to areas of judgement and estimation are adequately disclosed. **Chief Constable audit** • The policies and judgements are reasonable and appropriately disclosed. • Policies and judgements are in line with the requirements of the Code of Practice • Note 1 to the accounts sets out critical judgements in applying accounting policies • Note 3 to the accounts sets out assumptions made about the future and other major sources of estimation uncertainty. This includes an assessment of the likely impact if actual results differ from assumptions. • Accounting polices in relation to areas of judgement and estimation are adequately disclosed.	● Green

Assessment

● Red – Marginal accounting policy which could potentially attract attention from regulators

● Amber – Accounting policy appropriate but scope for improved disclosure

● Green – Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates & judgements (continued)

Accounting area	Relevant to? PCC/CC Both	Summary of policy	Comments	Assessment
Other accounting policies	**Both**	**PCC and Chief Constable** • We have reviewed the Police and Crime Commissioner's and the Chief Constable's policies against the requirements of the CIPFA Code and accounting standards.	**PCC audit** • Our review of accounting policies has not highlighted any issues which we wish to bring to your attention. **Chief Constable audit** • Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	Green

Assessment

- Red – Marginal accounting policy which could potentially attract attention from regulators
- Amber – Accounting policy appropriate but scope for improved disclosure
- Green – Accounting policy appropriate and disclosures sufficient

Misclassifications & disclosure changes – Police and Crime Commissioner financial statements

In the table below we set out details of misclassification and disclosure changes to the PCC's financial statements ,including the group consolidation, we identified during the audit and which management have adjusted.

	Adjustment type	Value £	Account balance	Impact on the financial statements
1	Misclassification	£1,042.937m	Unusable reserves (PCC group accounts)	The Chief Constable does not have local authority status and therefore a statutory override cannot be applied. Therefore, any liabilities are real cost and should be negative usable reserves. The impact on consolidation in the group accounts is on the balance sheet there will now be a negative Chief Constable usable reserve of £1,042.937m. Usable reserves will reduce by the same amount with the reductions being Pension reserve - LGPS (£28.802m), Pension reserve - Police (£1,010.490m), and the accumulated absences account (£3.645m).
2	Disclosure	N/A	Introduction by the PCC Chief Finance Officer	Wording amended to show the financial statements have been produced on the basis of merger accounting and not acquisition accounting as stated in the draft financial statements.
3	Disclosure	N/A	Statement of Accounting Policies	The accounting policies state that the Movement in Reserves Statement (MiRS) has been produced as if the Chief Constable did have local authority status, and therefore a statutory override. This is not the case and the wording has therefore been amended.
4	Misclassification	£616,000	Note 6 – Property, Plant and Equipment (PPE)	Note 6 on PPE incorrectly show ed£616,000 as a downward revaluation on vehicles and a £616,000 write out of depreciation to the revaluation reserve. This was simply a 'typo' error and should be £616,000 as a derecognition - disposal and £616,000 depreciation on disposal.
5	Disclosure	N/A	Note 18a – Pension schemes	Note 18.a on Pension scheme in the PCC accounts actually relates to the Chief Constable's accounts. This was simply an error of which table put in the accounts as the correct table was in the working papers.
6	Disclosure	£613,000	Note 28 – Remuneration for Senior Employees	A number of staff who contributed towards the PCC's decision making process were included in this note but were more appropriately disclosed in the Chief Constable's accounts.

Misclassifications & disclosure changes – Police and Crime Commissioner financial statements (Continued)

In the table below we set out details of misclassification and disclosure changes to the PCC's financial statements, including the group consolidation, we identified during the audit and which management have adjusted .

	Adjustment type	Value £	Account balance	Impact on the financial statements
7	Disclosure	£135,000	Note 31 – Grant Income	A coding error meant that the Police Community Support Officers grant from the Home Office was incorrectly disclosed as £2.47m but should have been £2.335m. The Dedicated Security Posts grant was incorrectly disclosed as £214,000 but should be £349,000. No effect on primary statements, disclosure note only.
8	Disclosure	N/A	Various	Various minor changes were made to supporting notes to improve presentation and ensure consistency.

Misclassifications & disclosure changes – Chief Constable financial statements

In the table below we set out details of misclassification and disclosure changes to the Chief Constable's financial statements we identified during the audit and which management have adjusted for

	Adjustment type	Value £	Account balance	Impact on the financial statements
1	Misclassification	£1,042.937m	Unusable reserves	The balance sheet and Movement in Reserves Statement (MiRS) shows the pension liability for LGPS (£28.802m) and Police Officers (£1,010.490m) , and the accumulated absences liability (£3.645m) as unusable reserves. This is in effect applying a statutory override to remove these as real costs. However, the Chief Constable does not have local authority status and therefore a statutory override cannot be applied. These therefore show as real cost and should be negative usable reserves.
2	Disclosure	N/A	Introduction by the CC Chief Finance Officer	Wording amended to show that the financial statements have been produced on the basis of merger accounting and not acquisition accounting as stated in the draft financial statements.
3	Disclosure	N/A	Statement of Accounting Policies	The accounting policies state that the Movement in Reserves Statement (MiRS) has been produced as if the Chief Constable did have local authority status, and therefore a statutory override. This is not the case and the wording has therefore been amended.
4	Disclosure	£613,000	Note 16 – Remuneration for Senior Employees	A number of staff who were part of the Chief Constable's decision making process were included in this note in the PCCs accounts but would be more appropriately disclosed in the Chief Constable's accounts.
5	Misclassification	N/A	Note 18 – Exit packages	An agreed exit package in the band £100,001 - £150,000 was incorrectly shown as a compulsory redundancy. It was a voluntary redundancy and should have been included in 'Other departures agreed'.
6	Disclosure	N/A	Various	Various minor changes were made to supporting notes to improve presentation and ensure consistency.

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Internal controls

The purpose of an audit is to express an opinion on the financial statements. Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to the PCC and to the Chief Constable via you in accordance with auditing standards.

This recommendation, together with management response, is included in the action plan attached at Appendix A.

	Assessment	Relevant to PCC/CC/ Both	Issue and risk	Recommendations
1.	Amber	Both	The PCC and CC had a comprehensive process for identifying Members, PCC staff, Police staff and Senior Police Officers who needed to complete a return to assess whether there were any potential related party transactions (RPT). There were nine people who did not complete a return even though reminders were sent. Unfortunately, no further steps were taken to assess whether those who had not completed a return might have had an RPT. Of those who made a return eight made disclosures of potential RPTs. None of these were deemed to need disclosure in the financial statements but these considerations made were not documented. This risk is that RPT that should be disclosed are not disclosed. Since we raised the issue, further work has been undertaken by officers to ensure no further RPT disclosures were required. These improvements need to be built into the system for 2013/14.	Ensure that improvements are made to the system for identifying related party transactions (RPTs). Where returns are not received ensure that alternative procedures are used to assess whether any potential RPT exists. Where disclosures on individual returns are made ensure that your consideration of whether these need to be disclosed in the financial statements is fully documented.

Assessment

- **Red –** Significant deficiency – risk of significant misstatement
- **Amber --** Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to the PCC and to the Chief Constable before we conclude our audits.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the PCC and Chief Constable. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures. The Audit Commission's national Fraud Initiative (NFI) is available to all public authorities and the PCC and CC's staff are reviewing the extensive database and following up any matches to establish whether there is any fraud.
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A standard letter of representation has been requested from the PCC and from the Chief Constable. • In particular, representations will be requested from management in respect of the outcome of the investigation into the Temporary Chief Constable and its impact on the Annual Governance Statements. • Disclosure of a recent tribunal case regarding the payment of injury pensions to a retired police officer and the conflict between police (injury benefits) regulations and social security legislation.
4.	**Disclosures**	• Our review found no material omissions in the financial statements]
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed.
6.	**Going concern**	• Our work has not identified any reason to challenge the PCC's and the Chief Constable's decisions to prepare the financial statements on a going concern basis.

Section 3: Value for Money

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Value for Money

Value for Money conclusion

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the PCC and the Chief Constable have each made proper arrangements for securing economy, efficiency and effectiveness in their use of resources. We are also required by the Audit Commission's Code of Audit Practice to report any matters that prevent us being satisfied that the audited bodies have put in place such arrangements. The result of this work is the Value for Money conclusion, which we give separately based on our assessment of each body's arrangements.

We have undertaken our audits in accordance with the Code of Audit Practice and, having regard to the guidance issued by the Audit Commission, we have considered the results of the following for both bodies:

- our review of the annual governance statements
- the work of other relevant regulatory bodies or inspectorates, to the extent the results of the work have an impact on our responsibilities
- local risk based work.

Overall Value for money conclusion – PCC

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the PCC put in place proper arrangements to secure economy, efficiency and effectiveness in The Police and Crime Commissioner for Cumbria's use of resources for the year ending 31 March 2013.

Key VFM findings for the PCC

Review of the Annual Governance Statements

We have reviewed the Annual Governance Statement and confirmed it is compliant with the relevant guidance and consistent with our knowledge of the governance arrangements in place. The Development and Improvement plan clearly outlines a range of reviews to be undertaken in 2013/14 to assess how current arrangements are working and develop new arrangements.

Review of the work of other regulatory bodies or inspectorates

In July 2012 Her Majesty's Inspectorate of Constabulary (HMIC) reported positively on Cumbria's on preparation for the introduction of the PCC.

Results of local risk based work

As part of our risk assessment we considered governance arrangements; local and national threats, service transformation and collaboration; financial management; assets and information management; and workforce management. No specific risk-based work was identified.

Overall Value for money conclusion – Chief Constable

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Chief Constable put in place proper arrangements to secure economy, efficiency and effectiveness in The Chief Constable for Cumbria Constabulary's use of resources for the year ending 31 March 2013.

Key VFM findings for the Chief Constable

Review of the Annual Governance Statements

We have reviewed the Annual Governance Statement and confirmed it is compliant with the relevant guidance and consistent with our knowledge of the governance arrangements in place. The Development and Improvement plan clearly outlines a range of reviews to be undertaken in 2013/14 to assess how current arrangements are working and develop new arrangements.

Review of the work of other regulatory bodies or inspectorates

Our review of reports issued by HMIC did not highlight any significant risks that would impact on our VFM Conclusion. HMIC has reported positively on Cumbria's response to austerity (2012) and the savings challenge (2013)

Value for Money (Continued)

Other issues

Outcome from the investigation into the Temporary Chief Constable

South Wales Police have now completed their investigation into allegations made against the Temporary Chief Constable and concluded there were no criminal acts or gross misconduct. The report includes 36 recommendations to improve arrangements and these are to be included within an action plan which will be monitored by the Joint Audit and Standards Committee. The PCC and Chief Constable are currently considering what needs to be included in the updated Annual Governance Statements to reflect the findings in the report.

Revenue underspending

The PCC's Chief Finance Officer reports in her Introduction to the accounts that there was an underspend of over £4.3 million in 2012/13. The underspend would have been some £6 million except that £1.7 million of revenue was used to fund capital expenditure in the year. The unspent monies were added to reserves. This pattern of significant underspending against the net budget has continued for some years and has been partly caused by the number of Police Officers being below establishment and also as a result of additional unplanned income.

At the end of 2012/13 the total available reserves which have been funded from revenue underspends was £26.7 million which represents around 25% of the gross revenue expenditure. Reserves have been reviewed and some earmarked in an 'investment fund' for managing the on-going changes and capital schemes which will help to improve the efficiency of the service.

When the 2013/14 budget was agreed in February 2013 total reserves were estimated as £25.5 million but at outturn were actually £26.7 million, an increase of £1.2 million.

In September 2013 the PCC's Chief Finance Officer reported an expected underspend of over £2.3 million on the 2013/14 budget.

The PCC and CC have recognised that police officer establishments need to be achieved and also that the reserves provide a source of funding for special projects such as further spending on reducing domestic violence and also to support the building of the new police station in Barrow.

Capital underspending

The capital budget was also underspent in 2012/13 by over£3.9 million. Slippage on capital schemes is relatively common but again there has been slippage on schemes for some years. The planned spending on schemes was to help the police provide better services and to improve efficiency recognising that the total available resources is being cut. Again this slippage has been recognised and new project management arrangements are being brought in to ensure that the budget is more realistic and momentum is maintained to ensure schemes progress on time.

Section 4: Fees, non-audit services and independence

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Fees, non-audit services and independence

We confirm below our final fees charged for the audits.

Fees

	Per Audit plan £	Actual fees £
Police and Crime Commissioner Audit	45,000	45,000
Chief Constable Audit	20,000	20,000
Total audit fees	**65,000**	**65,000**

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on each of the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

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Communication of audit matters to the Police and Crime Commissioner and to the Chief Constable

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the PCC's and the Chief Constable's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the PCC and the Chief Constable to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the PCC and the Chief Constable are fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan for the Police and Crime Commissioner and Chief Constable

Priority

High - Significant effect on control system
Medium - Effect on control system
Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Ensure that improvements are made to the system for identifying related party transactions (RPTs). Where returns are not received ensure that alternative procedures are used to assess whether any potential RPT exists. Where disclosures on individual returns are made ensure that your consideration of whether these need disclosed in the financial statements is fully documented.	Medium	A detailed procedure has been developed in relation to related party transaction collation and disclosure. The procedure/guidance will be distributed to relevant staff and key dates will be incorporated into the final accounts timetable for 2013-14 and beyond. The actions taken to ensure as many returns as possible will be fully documented as will any action taken to gain assurances following non receipt of forms. All working will be included in the annual audit file.	September 2013 Financial Services Manager
2.	The PCC and Chief Constable need to take steps to minimise the risk of future significant revenue and capital underspending.	Medium	As part of the 2013/14 budget process, the PCC has put in place a funding agreement with the Chief Constable that places priority on the Constabulary maintaining officer numbers at the level set within the budget. The Chief Constable has made structural changes to support more robust workforce planning and the capacity to better manage recruitment. The Executive Board has received assurances that the officer establishment will be at or above the budget target by October 2013. This will result in a reduced level of underspend in 2013/14 due to timing. A significant amount of work has been undertaken to realign the capital programme for 2013/14. The budget is already evidencing a stepped reduction in the level of slippage within the programme and changes have been made to ICT staffing to address capacity issues. There will always be instances where in-year changes are made to the ICT programme as a consequence of slippage at a national level and the nature of technology schemes. Decisions will continue to be made to slip schemes into future years where better value for money and technical benefits can be derived from doing so.	On-going The Police and Crime Commissioner The Chief Constable.

Appendix B: Audit of the PCC – draft auditor's report

We expect to issue an unqualified opinion on the PCC's financial statements and an unqualified Value for money conclusion on the PCC's arrangements for securing economy, efficiency and effectiveness in The Police and Crime Commissioner for Cumbria's use of resources. We include our draft audit report for your consideration below.

INDEPENDENT AUDITOR'S REPORT TO THE POLICE AND CRIME COMMISSIONER FOR CUMBRIA

Opinion on the financial statements

We have audited the financial statements for the Police and Crime Commissioner for Cumbria for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Police and Crime Commissioner Single Entity and Group Movement in Reserves Statement, the Police and Crime Commissioner Single Entity and Group Comprehensive Income and Expenditure Statement, the Police and Crime Commissioner Single Entity and Group Balance Sheet, the Police and Crime Commissioner Single Entity and Group Cash Flow Statement and the related notes and include the police pension fund financial statements comprising the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the Police and Crime Commissioner for Cumbria in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Police and Crime Commissioner for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and Auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us 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 Police and Crime Commissioner Single Entity and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword and the Introduction by the PCC Chief Finance Officer to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Appendix B: Audit of the PCC – draft auditor's report (continued)

Opinion on financial statements

In our opinion the financial statements:
- give a true and fair view of the financial position of the Police and Crime Commissioner for Cumbria as at 31 March 2013 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory foreword and the Introduction by the PCC Chief Finance Officer for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:
- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA / SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Police and Crime Commissioner to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Other matters on which we are required to conclude

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Police and Crime Commissioner has made proper arrangements for securing economy, efficiency and effectiveness in their use of resources. We are also required by the Audit Commission's Code of Audit Practice to report any matters that prevent us being satisfied that the Police and Crime Commissioner has put in place such arrangements.

We have undertaken our audit in accordance with the Code of Audit Practice and, having regard to the guidance issued by the Audit Commission in November 2012, we have considered the results of the following:
- our review of the annual governance statement;
- the work of other relevant regulatory bodies or inspectorates, to the extent the results of the work have an impact on our responsibilities; and
- our locally determined risk-based work.

As a result, we have concluded that there are no matters to report.

Appendix B: Audit of the PCC – draft auditor's report (continued)

Certificate

We certify that we have completed the audit of the financial statements of the Police and Crime Commissioner for Cumbria in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Gina Martlew
Associate Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP
95 Bothwell Street
Glasgow
G2 7JZ

Appendix C: Audit of the Chief Constable – draft auditor's report

We expect to issue an unqualified opinion on the Chief Constable's financial statements and an unqualified Value for money conclusion on the Chief Constable's arrangements for securing economy, efficiency and effectiveness in The Chief Constable for Cumbria Constabulary's use of resources. We include our draft audit report for your consideration below.

INDEPENDENT AUDITOR'S REPORT TO THE CHIEF CONSTABLE FOR CUMBRIA

Opinion on the financial statements

We have audited the financial statements of the Chief Constable for Cumbria for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes and include the police pension fund financial statements comprising the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the Chief Constable for Cumbria in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Chief Constable for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us 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 Chief Constable's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword and the introduction by the CC Chief Finance Officer to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Appendix D: Audit of the Chief Constable – draft auditor's report (continued)

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Chief Constable for Cumbria as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory foreword and the introduction by the CC Chief Finance Officer for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA / SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Chief Constable to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Other matters on which we are required to conclude

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Chief Constable has made proper arrangements for securing economy, efficiency and effectiveness in their use of resources. We are also required by the Audit Commission's Code of Audit Practice to report any matters that prevent us being satisfied that the Chief Constable has put in place such arrangements.

We have undertaken our audit in accordance with the Code of Audit Practice and, having regard to the guidance issued by the Audit Commission in November 2012, we have considered the results of the following:

- our review of the annual governance statement;
- the work of other relevant regulatory bodies or inspectorates, to the extent the results of the work have an impact on our responsibilities; and
- our locally determined risk-based work.

As a result, we have concluded that there are no matters to report.

Appendix D: Audit of the Chief Constable – draft auditor's report (continued)

Certificate

We certify that we have completed the audit of the financial statements of the Chief Constable for Cumbria in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Gina Martlew

Associate Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP
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Appendix D: Overview of audit findings

In this section we present our findings in respect of the matters and risks to our audits of the PCC's and of the Chief Constable's financial statements we identified at the planning stage of the audit and any additional matters that arose subsequently during the course of the audit.

Account	Relevant to? PCC/ CC/ Both	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Both	Operating expenses	Other	Operating expenses understated or not recorded in the correct period	No	PCC: Audit testing confirmed operating expenses are fairly stated. CC: Audit testing confirmed operating expenses are fairly stated
Cost of services – employee remuneration	Both	Employee remuneration	Other	Employee remuneration expenditure understated	No	PCC: Audit testing confirmed employee remuneration is fairly stated. CC: Audit testing confirmed employee remuneration is fairly stated
Cost of services – other revenues (fees & charges)	Both	Other revenues	None	.	No	PCC: Audit testing confirmed other revenues are fairly stated. CC: Audit testing confirmed other revenues are fairly stated
(Gains)/ Loss on disposal of non current assets	PCC	Property, Plant and Equipment	None	Immaterial balance	No	The value of gains/ losses on disposal of non-current assets is below a level we deem material so only limited audit testing was carried out. No errors noted.
Interest payable and similar charges	PCC	Borrowings	None	Immaterial balance	No	The value of interest payable and similar charges is below a level we deem material so only limited audit testing was carried out. No errors noted.
Pension Interest cost	Both	Employee remuneration	None		No	PCC: Audit testing confirmed pension interest costs are fairly stated. CC: Audit testing confirmed pension interest costs are fairly stated

Account	Relevant to? PCC/ CC/ Both	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Interest & investment income	PCC	Investments	None	Immaterial balance	No	The value of interest and investment income is below a level we deem material so only limited audit testing was carried out. No errors noted.
Return on Pension assets	Both	Employee remuneration	None		No	PCC: Audit testing confirmed return on pension assets fairly stated. CC: Audit testing confirmed return on pension assets fairly stated
Impairment of investments	PCCC	Investments	None	Immaterial balance	No	The value of impairment of investments is below a level we deem material so only limited audit testing was carried out. No errors noted.
Investment properties: Income expenditure, valuation, changes & gain on disposal	PCC	Property, Plant & Equipment	None	Immaterial balance	Yes, investment property in 2012/13.	The value of impairment of investments is below a level we deem material so only limited audit testing was carried out. No errors noted.
Income from council tax	PCC	Council Tax	None		No	PCC: Audit testing confirmed pension interest costs are fairly stated.
NNDR Distribution	PCC	NNDR	None		No	PCC: Audit testing confirmed pension interest costs are fairly stated.
PFI revenue support grant and other Government grants	PCC	Grant Income	None		No	PCC: Audit testing confirmed grants are fairly stated. Minor changes to disclosure note.
Capital grants & Contributions (including those received in advance)	PCC	Property, Plant & Equipment	None		No	PCC: Audit testing confirmed grants and contributions are fairly stated.

Account	Relevant to? PCC/ CC/ Both	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(Surplus)/ Deficit on revaluation of non current assets	PCC	Property, Plant & Equipment	None	Immaterial balance	Yes, not material amount in 2012/13 accounts	The value of (Surplus) / Deficit on revaluation of non current assets is below a level we deem material so only limited audit testing was carried out. No errors noted.
Actuarial (gains)/ Losses on pension fund assets & liabilities	Both	Employee remuneration	None		No	PCC: Audit testing confirmed actuarial (gains) / losses on pension fund assets and liabilities fairly stated. CC: Audit testing confirmed actuarial (gains) / losses on pension fund assets and liabilities fairly stated.
Other comprehensive (gains)/ Losses	PCC	Revenue/ Operating expenses	None	Immaterial balance	No	The value of other comprehensive (gains) / losses is below a level we deem material so only limited audit testing was carried out. No errors noted.
Property, Plant & Equipment	PCC	Property, Plant & Equipment	Other	Revaluation measurements not correct	No	PCC: Audit testing confirmed PPE fairly stated.
Heritage assets & Investment property	PCC	Property, Plant & Equipment	None	Immaterial balance	No	The value of heritage assets and investment property is below a level we deem material so only limited audit testing was carried out. No errors noted.
Intangible assets	PCC	Intangible assets	None	Immaterial balance	No	The value of intangible assets is below a level we deem material so only limited audit testing was carried out. No errors noted.
Investments (long & short term)	PCC	Investments	None		No	PCC: Audit testing confirmed investments fairly stated.

Account	Relevant to? PCC/ CC/ Both	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Debtors (long & short term)	Both	Revenue	None		Yes, in both	PCC: Audit testing confirmed debtors fairly stated. CC: Audit testing confirmed debtors fairly stated.
Assets held for sale	PCC	Property, Plant & Equipment	None	Immaterial balance	No	The value of assets held for sale is below a level we deem material so only limited audit testing was carried out. No errors noted.
Inventories	Chief Constable	Inventories	None		Yes, in Chief Constable's accounts	The value of inventories is below a level we deem material so only limited audit testing was carried out. No errors noted
Cash and cash equivalents	PCC	Cash	None		No	PCC: Audit testing confirmed cash and cash equivalents fairly stated
Borrowing (long & short term)	PCC	Debt	None	Immaterial balance	No	The value of borrowing is below a level we deem material so only limited audit testing was carried out. No errors noted
Creditors (long & Short term)	Both	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	PCC: Audit testing confirmed creditors fairly stated. CC: Audit testing confirmed creditors fairly stated.
Provisions (long & short term)	Both	Provision	None	Immaterial balance	No	The value of inventories is below a level we deem material so only limited audit testing was carried out. No errors noted
Pension liability	Both	Employee remuneration	None		No	PCC: Audit testing confirmed pension liability fairly stated. CC: Audit testing confirmed pension liability fairly stated
Reserves	Both	Equity	None		No	PCC: Audit testing confirmed reserves fairly stated. CC: Audit testing confirmed unusable reserves should have be categorised as usable reserves.

Account	Relevant to? PCC/ CC/ Both	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Police Officer Pension Fund contributions receivable	Chief Constable	Pension Scheme Contributions	Other	Recorded contributions not correct	Yes, disclosed in Chief Constable accounts	CC: Audit testing confirmed Police Officer Pension Fund contributions receivable fairly stated.
Police Officer Pension Fund contributions receivable / benefits payable	Chief Constable	Pension Membership Data	Other	Actuarial amounts not determined properly	As above	CC: Audit testing confirmed Police Officer Pension Fund contributions receivable / benefits payable fairly stated
Police Officer Pension Fund contributions receivable / benefits payable	Chief Constable	Pension Membership Data	Other	Member data not correct	As above	CC: Audit testing confirmed Police Officer Pension Fund contributions receivable / benefits payable fairly stated
Police Officer Pension Fund contributions receivable / benefits payable	Chief Constable	Pension Membership Data	Other	Regulatory, legal and scheme rules/requirements not met	As above	CC: Audit testing confirmed Police Officer Pension Fund contributions receivable / benefits payable fairly stated
Police Officers Pension Fund benefits payable	Chief Constable	Pension Scheme Benefits Payments	Other	Benefits improperly computed/ Claims liability understated	As above	CC: Audit testing confirmed Police Officer Pension Fund benefits payable fairly stated

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Cumbria Office of the Police and Crime Commissioner

Annual Statement of Accounts 2012-13

Report to the Police and Crime Commissioner and Audit and Standards Committee 23rd September 2013

Report of the Chief Finance Officer

1. Introduction and Background

1.1 This report sets out for the Commissioner, and members of the Audit and Standards Committee, those areas of governance and audit pertaining to scrutiny and formal approval of the 2012-13 Statement of Accounts. This report covers the single entity financial statements of the Police and Crime Commissioner and the Group financial statements. The report sets out the opinion of the Commissioner's appointed auditor and amendments made to the Accounts, and accompanying governance statement, as a consequence of the findings of the audit and post balance sheet events. It also sets out information provided to Ms Martlew, the Commissioner's appointed auditor, as part of the regulatory requirement for a letter of representation.

1.2 The report includes an appendix that provides a narrative on the financial statements (appendix a). The appendix aims to support members of the Audit and Standards Committee in undertaking their assurance role by providing a narrative in respect of the sources of assurance available to them and on the substantive issues that have been considered in respect of the production of the financial statements. For 2012-13 this narrative specifically focuses on the statutory changes from November 22nd and the accounting implications of the Commissioner and Chief Constable being established as separate corporate entities. This statutory change has been accompanied with very limited guidance and regulatory complexities that has presented the most significant element of risk to the 2012-13 financial statements.

2. Appointed Auditor's Audit Findings Report

2.1 Preceding this item on your agenda is the Audit Findings Report from Ms Gina Martlew, of Grant Thornton UK LLP, the Commissioner's appointed auditor. Ms Martlew reports on her completion of the annual audit of the Statements of Account for 2012-13. The Commissioner and members of the Audit and Standards Committee will be pleased to see her intention, based on her findings to date, to issue unqualified audit opinions in respect of the Statement of Accounts for the year to 31 March 2013 and in respect of the Commissioner's arrangements to secure Value for Money.

3. Formal Approval of the Audited Statements

3.1 The Statement of Accounts were authorised by the Chief Finance Officer on 29th June 2013 in accordance with the 2011 Accounts and Audit Regulations. The audit having now been completed, the Chief Finance Officer is required to again certify the statements and present them to the Commissioner for formal approval. Prior to certification the Commissioner will take into consideration the Annual Governance Report from Ms Martlew. The Commissioner will also take into consideration the views of members of the Audit and Standards Committee. The Committee will receive the Statement of Accounts and the Annual Governance Report. They will consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Commissioner.

4. Amendments to the Statements following Audit

4.1 The primary financial statements are the movement in reserves statement (MIRS), the comprehensive income and expenditure statement (CI&ES), the balance sheet and cash flow statement. There has been an amendment in respect of the treatment of pension liabilities within the primary financial statements that has arisen as a consequence of the absence of any statutory override that is available to reverse this liability within the Chief Constable's accounts. The funding and group relationship between the Commissioner and Chief Constable means that this regulatory complexity has implications for the group accounts. At the time of approval of the accounting statements no clear guidance had been issued in respect of the treatment of this transaction.

4.2 The absence of guidance has also been an issue in respect of the audit of this transaction within the financial statements. The approach taken by the auditors has been to

review financial statements across all client groups. Discussions have then taken place with their national technical team and the audit commission to determine an appropriate interpretation of how the transaction could reasonably be reported. The auditor's preferred approach was discussed with finance staff in August and the amendment has been made within the financial statements. There have been no other amendments to the primary financial statements and only a limited number of amendments have been made within supporting information and notes to the statements. These are referred to in the Auditor's report and set out as appendix b to this report. The changes are also highlighted within the copy of the financial statements presented to the Audit and Standards Committee.

4.3 The Commissioner and members of the Committee will also be pleased to note the auditor's conclusions that the financial statements were well prepared and of a good standard and supported by working papers of a good standard.

4.4 The Auditor's report raises one matter in respect of the internal control environment pertaining to related party transactions. During the 2012-13 financial year, as a consequence of restructuring and the abolition of the Police Authority, a number of related party transaction disclosures were not received from former members and employees. Significant efforts were made to obtain a full set of disclosures however 9 remain unreturned. The auditors have raised that in such circumstances they would expect that other means are taken to determine whether a related party transaction may have occurred. In addition, where related party disclosures are made, the Chief Executive and Chief Finance Officer will undertake a review to determine whether the disclosure should be reported within the financial statements. The auditors have asked that this review is documented for the working papers where it results in a decision not to disclose. These actions have been carried out for the 2012-13 financial statements and will form part of the accounts closure process in future years.

5. Post Balance Sheet Event

5.1 A post balance sheet event is an event, subsequent to the date of the financial statements, and for which International Financial Reporting Standards and the Code of Practice on Local Authority Accounting (COPLAA) require adjustment or disclosure. The attention of the Auditor has been drawn to:

5.2 The decision of the Commissioner on 23rd August under 2003 and 2008 conduct regulations that there is a case to answer for misconduct in respect of the investigation and

suspension of Temporary Chief Constable Stuart Hyde. The decision determined that the matter would not be referred to a misconduct hearing on the grounds of public interest and that management action would be taken. This concludes the process in respect of the Police Authority decision of 13th September to suspend the Temporary Chief Constable and the investigation of allegations by South Wales Police.

5.3 The decision of the Commissioner on 23rd August to suspend TCC Mr Hyde under section 38 (2) of the Police Reform and Social Responsibility Act 2011 and that Mr Hyde's appointment as Temporary Chief Constable ended on 30th August. As a consequence, and after that date, Mr Hyde reverted to Deputy Chief Constable, at which point the Commissioner no longer had jurisdiction to consider the matter.

5.4 Consideration has been given to the implications in respect of the statement of accounts and annual governance statement. The conclusions reached are that the accounts will be amended to reflect a non-adjusting post balance sheet event. The annual governance statement will be updated to reflect the development of a joint Constabulary/OPCC action plan to address points of governance raised in the investigation report into the conduct matters by South Wales Police. The recommendations within the report and a summary of the findings have been made public to aid transparency.

6. 2012-13 Governance Statements

6.1 The Police and Crime Commissioner approved his Governance Statement for the period 22nd November to approval of the 2012/13 Statement of Accounts on 13 June. The Chief Executive and Chief Finance Officer of the former Police Authority provided assurance in respect of the arrangements in place for the Police Authority between 1st April 2012 and 21st November 2012. The Chief Executive made amendments to the Statements following the meeting of the Audit and Standards Committee on 24 June, under delegations provided by the Commissioner's Executive Board. The Statements made clear that governance matters would continue to be kept under review against emerging issues.

6.2 The Commissioner's Governance Statement made reference to the findings of the investigation report of South Wales Police in respect of the allegations leading to the suspension of the Temporary Chief Constable Stuart Hyde on 13th September 2012. The action plan within the statement identified the need to review the report of the investigating officer and consider the implications for the arrangements in respect of managing the performance of the Chief Constable. The statement has been updated as a consequence of the post balance sheet event referred to in section 5 of this report. The statement

references the development of a joint action plan between the Commissioner and the Chief Constable to address recommendations within the report. The recommendations of the investigating officer following investigation are presented on the agenda to this meeting of the Audit and Standards Committee. The Committee, as appropriate to their terms of reference, will receive the joint action plan and have oversight of the implementation of agreed actions.

6.3 The Governance Statement notes that the recommendations of the investigating officer are made with reference to performance management and wider governance arrangements primarily in place at and up to four years prior to 13th September 2012. The introduction of the Police and Crime Commissioner on 22nd November 2012 made substantive changes to the respective role and responsibilities of the Commissioner and Chief Constable. Governance arrangements have undergone a significant review and update as a consequence of this change. In addition, minor changes have been implemented as a consequence of the interim reports of the investigating officer. The Governance Statement also reports that the 2013/14 audit plan includes audit review of the significant areas arising within the report of the investigating officer to ensure that any changes made to policies and processes are robust in respect of internal controls. The changes to the governance statement are set out at appendix c.

7. Letter of Management Representation

7.1 At the conclusion of the audit of the Statement of Accounts, but before an opinion can be given, a 'Letter of Management Representation' is provided to the appointed auditors by the Chief Finance Officer on behalf of the Commissioner. The underlying purpose of the letter is to confirm that the financial statements reflect a true and fair view in accordance with international financial reporting. The letter sets out that relevant codes, standards and statutory directions have been complied with and that we have made reasonable estimates and judgements in undertaking accounting entries and disclosures. The letter also confirms that there has been full disclosure of all matters requiring disclosure to our auditors. The Letter of Management Representation is attached at appendix d.

8. Acknowledgements

8.1 The work undertaken in preparing the Statements of Account and supporting the audit for the year places very significant demands on staff within the finance services team. Key amongst those has been Roger Marshall, Head of Financial Services and particularly

Michelle Bellis, Accountancy Services Manager, who has once again secured for the Authority another clean audit. This report also acknowledges the work undertaken by our colleagues in external audit headed by Gina Martlew and Richard McGahon.

9. Recommendations

9.1 Following consideration of the findings and conclusions of the Appointed Auditor it is recommended that:

- Members of the Audit and Standards Committee determine whether there any issues in respect of governance or the statement of accounts that they wish to report to the Commissioner

- The Commissioner signs the audited Statement of Accounts and authorises for publication the Accounts and accompanying Governance Statement.

Appendix A

Statement of Accounts Narrative 2012-13

1. Introduction and Background

1.1 The Police and Crime Commissioner will sign the annual statement of account following audit and the review process by the Audit and Standards Committee. Members of the Audit and Standards Committee will receive a copy of the audited accounts and accompanying governance statement for which they have a review and assurance role. The Statement of Accounts are highly complex technical documents. They take a number of weeks to produce and a similar period of time to audit by a team of technical and experienced staff. The audit process will typically involve support from national technical teams who assess and advise on accounting treatment for complex transactions against the requirements of international financial reporting standards and codes of practice. Within the finance profession, the Statement of Accounts is a very specialist field.

1.2 In this context, this narrative aims to provide a guide to the considerations that the Commissioner and Members of the Audit and Standard Committee can reasonably be expected to take account of, in carrying out a review process and undertaking to approve the Statement of Accounts. It covers two main areas, sources of assurance for the financial statements and key challenges and issues. These are the areas that influence the dialogue and engagement between the finance staff preparing the accounts and those undertaking the audit. In doing this, the narrative aims to ensure that members have sufficient information to fulfil their assurance role and that the Commissioner can place reliance on this assurance in approving the Statement of Accounts.

2. Sources of Assurance

2.1 The Statement of Accounts consolidates financial transactions for a financial year and record the position as at 31st March in respect of assets and liabilities including reserves and cash flow. They include a number of year end accounting entries that ensure income and expenditure is presented on an accruals basis, that assets and liabilities are recorded in accordance with accounting standards and codes and that the financial implications of those assets and liabilities are adjusted such that net expenditure reflects the actual cost funded by external financing (government and the council tax payer). They are accompanied by accounting policies that explain how those transactions and balances have been accounted

for and a set of notes that provide further detail on amounts included within the main financial statements.

2.2 Those undertaking a review of the accounts will not usually be in a position to determine whether the presented figures are correct based on a reading of the financial statements and notes. The review processes must therefore place reliance on wider sources of assurance from which it is reasonable to make a judgement that the accounts present a true and fair view. The main sources of assurance that support this process are:

2.2.1 The Chief Finance Officer's (CFO) Annual Review of Internal Audit: The CFO will annually provide to members a report on the effectiveness of the arrangements for audit. In presenting this opinion, the CFO will take into account the opinion of the external auditors on the quality of the internal audit function and how well the function complies with public sector audit standards. The 2012-13 review concluded that **"there are no material shortcomings in the effectiveness of the entirety of the Internal Audit arrangements for the year to 31 March 2013."** This assurance enables members of the Audit and Standards Committee to place reliance on the opinion of the Chief Internal Auditor and the findings of internal audit.

2.2.2 The opinion of the Chief Internal Auditor (CIA): The CIA provides an annual opinion on the internal control environment. The opinion is based on the audit reviews undertaken over the course of the financial year. Audits are risk based and will always include all material financial systems. The findings of the CIA are set out in an annual report that states **"In our opinion the internal controls have operated satisfactorily during 2012/13."** The opinion is based on 14 audits. 8 of those have concluded that compliance with controls is 'good', of the remaining reports 5 have been awarded a 'satisfactory' conclusion and 1 has received a 'fair' conclusion. No audits classed the control environment as weak. Collectively, the findings of financial audits reported to the Audit and Standards Committee and the overall opinion of the Chief Internal Auditor will enable members to make a judgement on the likely integrity of the underlying financial transactions and the financial ledger.

2.2.3 The opinion of the Appointed Auditor: The Appointed Auditor will provide an independent external opinion on the financial statements following the audit process. In forming this audit opinion they will undertake a range of audit work. This will include reconciling the figures within the accounts to the financial ledger, undertaking a computer based analytical review to validate the accuracy of material transactions and undertaking

further systems based sample testing of ledger amounts back to the primary financial transaction. The external auditors will also review accounting policies and ensure accounting estimates, manual entries and the presentation of financial information is consistent with policy, financial reporting standards and codes of practice. The external audit is typically undertaken by a team of professionally qualified staff who will audit a number of public and/or private sector clients. They will have access to national technical support and quality controls at a regional and national level to support the integrity of the audit and ensure specialist advice and input is given to the treatment of complex transactions of a technical nature. The annual report of the Appointed Auditor is made to the Commissioner and Members preceding this item on the agenda an presents an **"unqualified audit opinion"** and that **"the financial statements give a true and fair view."**

2.2.4 The Letter of Representation: The letter of representation is provided at appendix b and referenced in the main body of this report. The letter provides assurances from the Commissioner to the Appointed Auditor. The letter is written on behalf of the Commissioner by the Chief Finance Officer. That officer, as required under legislation, must be financially qualified. Within the Office of the Police and Crime Commissioner, that officer is a member of a professional accountancy body with a requirement to abide by codes of practice, standards and ethics. These arrangements provide assurance that members can place reliance on the representations made by the Chief Finance Officer.

2.3 Collectively, these sources of assurance, where they are operating to the satisfaction of members, can support conclusions in respect of the extent to which the committee is reasonably able to provide the related assurance to the Police and Crime Commissioner in reviewing the financial statements.

3. Key Challenges and Issues

3.1 The Police Reform and Social Responsibly Act 2011 (PRSRA) established the Police and Crime Commissioner (PCC) and the Chief Constable (CC) as separate corporate entities on the 22nd November 2012. Prior to this date, the operations of Cumbria Constabulary came within the governance of Cumbria Police Authority as a single statutory entity with a requirement for one Statement of Accounts. The implications of this change are that there is a requirement for the PCC and the CC to have single entity Statement of Accounts and for a consolidated group Statement of Accounts.

3.2 To achieve this, consideration needs to be given to whether income and expenditure

and assets and liabilities should be disclosed within the single entity statements of the PCC or the CC. On consolidation any inter-entity transactions must be written out of the group statements. These issues have been further complicated by the absence of a statutory override to enable the CC to enact accounting transactions that are made to ensure that income and expenditure, accounted for according to IFRS and codes of practice, impact on the statements only at the amounts that would be a charge to income during the financial year. These matters have been the primary focus of discussions between finance staff producing the accounts and the external auditors. This paper sets out the key accounting considerations and the rationale that influenced decision making in respect of how these matters should be presented within the statements.

Group Accounts: Determining that the relationship between the PCC and CC is one of control such that the CC is a subsidiary and there is a requirement for group accounts.

i This issue was considered nationally as the overriding considerations are the same for all PCC and CC financial statements. CIPFA guidance following a number of police network events confirmed that that the Constabulary is likely to be treated as a subsidiary. The Code of Practice on Local Authority Accounting defines a subsidiary as an entity that is controlled by another entity. Control is defined in a number of ways, including the power to govern financial and operating policies under statute or an agreement, and the power to appoint or remove the governing body.

ii With regard to the power to govern operating policies the relationship was considered to be more accurately defined as one where the PCC has significant influence rather than control. This is because the PCC influences operational policy by setting the strategic direction for policing through the police and crime plan. It is however difficult to make a case that the relationship is one of control or joint control over those policies given the CC's operational independence. Control is stronger over finance policy as a result of the PCC's decision making autonomy in respect of the budget, and the controls that operate through the funding agreement between the PCC and CC. In addition and significantly, the PCC has the power to appoint or remove the CC (the governing body). Collectively this was considered to amount to a relationship of control and as such the CC is considered a subsidiary with a requirement for group accounts.

Disclosure of Resources: The extent to which police officers, civilian members of police staff, other police staff and assets should be disclosed with their associated liabilities within the PCC or CC financial statements.

i This issue formed the basis of the most substantive discussions. Expenditure on staffing resources and assets is matched by respective assets and liabilities. The liabilities include issues such as pension fund deficits (staff) and depreciation (assets) that are accounted for on an IFRS basis and adjusted through the statutory override. To produce the accounts decisions had to be taken on:

- the balance of control and economic benefit over resources in order to establish where the primary disclosures should be made
- an appropriate means of charging some of the expenditure from the primary disclosure to the other entity to reflect the shared use of some assets and staff resources
- the means of managing transactions within the CC's accounts in relation to primary disclosures without the ability to make the usual adjustments through the statutory override.

ii Decision making was primarily underpinned by the respective statutory duties and responsibilities of the PCC and CC as set out in the PRSRA 2011 and the Policing Protocol Order (PPO). This was further supported by the governance arrangements put in place on or following 22nd November. The significant governance documents are the scheme of delegation and the funding agreement.

iii Of most significance in regard to the treatment of assets and staffing resources is the issue of control and receipt of economic benefit. The following statutory points were considered to be relevant:

- The Commissioner's functions in relation to policing are to secure the maintenance of the force and ensure that it is efficient and effective. The Commissioner holds the CC to account for his/her functions and the functions of persons under the direction and control of the CC. The Commissioner is also responsible for setting the strategic direction of the force and policing objectives through the police and crime plan.

- The CC has a number of statutory functions, of significance of which is responsibility for maintaining the Queen's peace through the exercise of police powers. Police officers and civilian staff (defined in the PRSRA 2011 as employed solely to assist the force) are directed and controlled by the CC towards policing activity to fulfil these functions. The CC is accountable for supporting the PCC in the delivery of the strategy and objectives set out in the police and crime plan.

- Whilst the Commissioner holds the CC to account in respect of having regard to the police and crime plan, the CC must be consulted by the Commissioner on the plan. It is the CC who will largely determine how those objectives are delivered and the allocation of resources to meet them. The CC is also responsible for having regard to the Strategic Policing Requirement as set by the Home Secretary when exercising and planning policing functions. Overall resource allocations therefore take account of the statutory function of maintaining the Queen's peace, the priorities within the police and crime plan (set by the Commissioner but in consultation with the CC) and the strategic policing requirement. The CC has direction and control of Police Officers and all operational staff in making those decisions.

- In respect of economic benefit, both the Commissioner and the CC obtains benefit from the staffing and assets under the CC's direction and control. The argument for economic benefit, given that staffing resources can only be in one set of accounts, would appear to be stronger in respect of maintaining the Queen's peace. This is further supported by Constables holding office under the crown and the CC being accountable to the law for the exercise of police powers. The CC is also responsible to the public. Further to this, the police and crime plan is now a multi-agency strategy through which services are commissioned across a number of partnerships. The assets and resources of wider partners are not being included on the PCC's balance sheet. The policing protocol order states that, 'at all times the Chief Constable, their constables and staff, remain operationally independent in the service of the communities they serve".

- Public management of the police fund rests with the PCC. The PCC and CC share responsibility for effective management of the policing budget and securing value for money. The CC has day to day responsibility for managing allocated budgets and ensuring financial management is consistent with PCC objectives/conditions. Both operationally and financially the PCC has a strategic and accountability role but the CC has operational control within that strategic framework. The CC is responsible for assisting the PCC in planning the force budget. This provides the PCC with control but the CC will have substantial influence. Influence is likely to be more effectively exercised where the force is performing well and meeting strategic objectives, which is the case in Cumbria. In practice most of the objectives will be shared and heavily influenced by the professional opinion of the CC. These matters will be taken into account by the PCC in exercising the statutory responsibility for the police and crime plan.

iv Police officer and civilian staff of the force are required statutorily to be under the direction and control of the Chief Constable irrespective of the legal employer. The CC must exercise his/her powers of direction and control in a way to assist the Commissioner but direction and control rests with the Chief Constable and the requirement to delegate control of those resources is statutory. The direction and control of the CC includes:

- The ability to issue a warrant to an attested officer with which the officer may exercise their police powers
- Decisions in relation to the appointment and dismissal of officers and staff
- Decision concerning the configuration and organisation of policing resources including the deployment of officers and staff
- Total discretion to investigate crimes/individuals
- Decisions on balancing competing operational needs within the framework of priorities and objectives set by the PCC
- Operational decisions to re-allocate resources to meet immediate demand
- The allocation of officers specific duties/responsibilities to meet strategic objectives set by the PCC

v The PCC holds the CC to account and sets priorities/strategic objectives (in consultation with the CC) but the Chief Constable, their Constables and staff, remain operationally independent. The PCC must not fetter the operational independence of the police force and the Chief Constable who leads it. Information required by the PCC from the CC must not fetter the CC's direction and control of the force. The requirement to consult with the PCC on staffing matters only applies to officers/staff above the rank of chief superintendent/police staff equivalents. The PPO also requires the CC to explain to the public the operational actions of officers and staff under their command. The issues of command and direction and control combined with the requirements around operational independence appear to support the CC as the entity that is controlling the majority of staffing resources.

vi As a result of the statutory requirements to vest direction and control with the CC, the scheme of delegation for Cumbria policing area identifies all police staff that are considered to fall within the definition of civilian staff. The PCC must and has vested all decision making in respect of these staff with the CC. The funding agreement between the PCC and CC passes budget responsibly in respect of these staff to the CC and provides the CC with autonomy of decision making in respect of those budgets. **On the basis of direction and control, and on the basis that the primary purpose of these staff and Constables is to**

maintain the Queen's peace, the costs of police officers and civilian staff are included on in the accounts of the CC. Matching principles require related pension liabilities to be treated in the same way.

vii Police staff that are not employed solely to assist the force (primarily support staff) are identified within the Cumbria policing area as resources for which the PCC and PCC's Chief Executive have ultimate decision making responsibility. The scheme of delegation does not give direction and control to the CC for this group of staff although the CC may have responsibility for line management. All decision making rests with PCC and the Chief Executive. The budgets for these staff are retained by the PCC under the terms of the funding agreement between the PCC and the CC. The CC has no autonomy in respect of budgets, structures, terms etc in respect of these staff. **With regard to the accounts, this staff group is recognised as expenditure within the accounts of the PCC with matching pension fund liabilities.**

viii The single entity accounts are charged with a recharge to reflect the cost of services provided by one entity to another entity where a single team provides support on a shared service basis. This is primarily in respect of support staff expenditure, with costs initially disclosed in the accounts of the PCC, but where services are provided to both the PCC and the CC. A charge is made to the CC to reflect the cost of service to the Constabulary.

ix Capital assets for the balance sheet fall into three main areas, land and property, fleet and ICT. The treatment of these assets is based on the COPLAA non-current assets. The relevant considerations have been:

- Asset recognition: assets are recognised on the balance sheet if it is probable that the future economic benefits or service potential associated with the item will flow to the entity.
- Finance lease: transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not be eventually transferred.
- Operating lease: a lease other than a finance lease
- Whether the lease is a finance lease or operating lease depends on the substance of the transaction rather than the form of the contract.

x A review of the control of assets and the risks and rewards pertaining to assets has determined that assets will be disclosed on the balance sheet of the PCC. This has been based on:

- Land and property assets: the PCC effectively acts as a landlord and is the recipient of the economic benefit from the asset in terms of appreciation in value and the capital receipt from disposal. The PCC makes all decisions with regard to property disposal and acquisition. The PCC formally approves the capital strategy and property strategy and retains the budgets for estate management and maintenance. The CC can only enter into contracts to acquire property with the express consent of the PCC and may not own land.

- Fleet and ICT assets are controlled by the PCC. The CC has no autonomy to act in respect of any capital budgets. These are all retained by the PCC. The PCC makes all decisions on capital strategy and all capital acquisitions are subject to approval by the PCC through a business case. The CC presents to the PCC asset management strategies in respect of ICT and Fleet but has no independence of action or any authority to enter into contracts without the approval of the PCC. No approval to enter into any contracts has been given. On disposal of assets the PCC is the beneficiary of sale proceeds and funds from his budget any acquisitions.

xi These arrangements are set out within the scheme of delegation and the funding agreement that governs the relationship between the PCC and CC. A charge is made from the PCC to the CC to reflect the CC's use of PCC assets. **All assets are considered to meet the definition of an operating lease with the PCC as the lessor and the CC as lessee.**

Debtors, Creditors and Cash

i The arrangements between the PCC and CC do not provide any authorisation for the CC to enter into contracts. The PCC operates a bank account and makes all arrangements for the procurement of supplies and services. The making of creditor payments, recovery of debt and management of cash is transacted by the PCC on behalf of both the PCC and the CC. The CC undertakes a number of activities that generate income. The PCC statutorily is the recipient of all income and as such income collection and generation activities are undertaken on behalf of the PCC and all income is receipted to the PCC's bank account. The CC is unable to borrow and has no powers to undertake treasury transactions. The

funding agreement between the PCC and CC is made on the basis of cash flow. This means that the CC receives a funding amount up to a maximum level of defined budget but can only claim what has been spent. The PCC makes all payments on behalf of the CC and as such the CC will not have any cash balances.

ii To reflect these arrangements within the statement of accounts, the PCC's financial statements disclose all external debtor and creditors, reflecting the PCC's liability in respect of these transactions. Both the PCC and CC's financial statements disclose any associated debtor and creditor liability between the entities. These transactions are primarily in respect of the CC's liability to the PCC for external debtors where the CC has utilised the supply or service or the PCC's liability to the CC to fund accrued expenditure under the terms of the funding agreement. The PCC's financial statements show all cash transactions other than the movement through the CC's cash flow statement for the net deficit on the C&IES.

Other Relevant accounting concepts

i True and fair view: faithful representation of the effects of transactions, other events and conditions in accordance with the definition and recognition criteria for assets, liabilities, income and expenses set out in the code.

ii Objectives of financial statements: to show the results of the stewardship and accountability of PCC/CC and management of resources entrusted to them.

iii The treatment of assets and expenditure and associated liabilities has been based on the above accounting concepts as a first principle. This means that we have tried to adhere to what the reader of the accounts would expect to see, irrespective of the further complication of absence of a statutory override for the CC. The main impact of adhering to these accounting concepts has been that the CC's accounts contained staffing expenditure for police officers and staff and a matched pension liability. Without the statutory override the pension liability is unable to be written out in the usual way as a statutory adjustment from the accounting basis to the funding basis (i.e. the actual costs that must be borne during the financial year).

iv The funding and group relationship between the Commissioner and Chief Constable means that this regulatory complexity has implications for the Chief Constable's single entity accounts and the group accounts. At the time of approval of the accounting statements no clear guidance had been issued in respect of the treatment of this transaction. There were

three potential routes for managing this issue within the financial statements:

- Disclosing the liability with the PCC single entity statements: this was felt to fail to adhere to the accounting concepts set out above based on the justifications presented earlier in this narrative
- Disclosing the liability in the CC accounts with a debtor entry between the PCC and CC: this position would have required evidence of the CC's ability to enforce the debt. Audit opinion was that this approach would at minimum have required a signed agreement between the PCC and the CC such that the PCC agreed to underwrite the debt. This presented a number of difficulties, significantly that no such agreement was in place and the reasonableness of requiring the PCC to underwrite the debt.
- Disclosing the liability within the CC accounts and effecting the entry through a movement in reserves: this is the position taken by Cumbria and that was felt to most closely reflect the nature of the arrangement and overriding accounting transactions.

v In adopting the latter option, the key issue was the absence of any statutory override to enact the movement in reserves or any guidance with regard to an alternate methodology on which basis the transaction could be made. The treatment adopted was therefore to make the transaction and account for it on the basis of an adjustment in the accounting basis and the funding basis to reflect funding between the PCC and the CC. This is substantially to account as if the statutory override was in place and create an unusable reserve. In making the transaction this way, the finance team was fully cognisant of the likely need, post audit, to undertake some amendment to the transaction, once the auditors had determined their view.

vi The absence of guidance was also an issue in respect of the audit of this transaction within the financial statements. The approach taken by the auditors has been to review financial statements across all client groups. Discussions have then taken place with the national technical teams and the audit commission to determine an appropriate interpretation of how the transaction could reasonably be reported. The auditor's preferred approach was discussed with finance during the audit and an amendment has been made within the financial statement. The amendment has been to keep the presentation of the transaction through the movement in reserves statement, but to effect the movement as a negative useable reserve rather than a useable reserve. The statutory override is expected to be in place for the 2013-14 accounts, at which point the transaction will be re-stated as a prior year adjustment and the entry recorded in unusable reserves.

Accounting Polices and Notes to the Accounts

i The accounting policies adopted by both entities are the same but these are only included in the single entity statements where they apply to transactions included in those statements.

This concludes the substantive matters considered as part of the production of the statement of accounts.

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Misclassifications & disclosure changes – Police and Crime Commissioner financial statements

In the table below we set out details of misclassification and disclosure changes to the PCC's financial statements ,including the group consolidation, we identified during the audit and which management have adjusted for.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Misclassification	1,042,937	Unusable reserves (PCC group accounts)	The Chief Constable does not have local authority status and therefore a statutory override cannot be applied. Therefore, any liabilities are real cost and should be negative usable reserves. The impact on consolidation in the group accounts is on the balance sheet there will now be a negative Chief Constable usable reserve of £1,042,937k. Usable reserves will reduce by the same amount with the reductions being Pension reserve - LGPS (£28,802k), Pension reserve - Police (£1,010,490k), and the accumulated absences account (£3,645k).
2	Disclosure	N/A	Introduction by the PCC Chief Finance Officer	Wording amended to show the financial statements have been produced on the basis of merger accounting and not acquisition accounting as stated in the draft financial statements.
3	Disclosure	N/A	Statement of Accounting Policies	The accounting policies state that the Movement in Reserves Statement (MiRS) has been produced as if the Chief Constable did have local authority status, and therefore a statutory override. This is not the case and the wording has therefore been amended.
4	Misclassification	616	Note 6 – Property, Plant and Equipment (PPE)	Note 6 on PPE incorrectly show ed£616k as a downward revaluation on vehicles and a £616k write out of depreciation to the revaluation reserve. This was simply a 'typo' error and should be £616k as a derecognition - disposal and £616k depreciation on disposal.
5	Disclosure	N/A	Note 18a – Pension schemes	Note 18.a on Pension scheme in the PCC accounts actually relates to the Chief Constable's accounts. This was simply an error of which table put in the accounts as the correct table was in the working papers.
6	Disclosure	613	Note 28 – Remuneration for Senior Employees	A number of staff who were not part of the PCC's decision making process were included in this note but would be more appropriately disclosed in the Chief Constable's accounts.

Appendix B

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Misclassifications & disclosure changes – Police and Crime Commissioner financial statements (Continued)

In the table below we set out details of misclassification and disclosure changes to the PCC's financial statements ,including the group consolidation, we identified during the audit and which management have adjusted for.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
7	Disclosure	135	Note 31 – Grant Income	A coding error meant that the Police Community Support Officers grant from the Home Office was incorrectly disclosed as £2,470k but should have been £2,335k. The Dedicated Security Posts grant should be £349k.
8	Disclosure	N/A	Various	Various minor changes were made to supporting notes to improve presentation and ensure consistency.

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Annual Governance Statement Narrative 2012-13

The Commissioner has had responsibility for managing the process in respect of the decision of the former Police Authority on 13th September 2012 to suspend the Temporary Chief Constable following allegations relating to serious misconduct. In respect of that process, and following the receipt of the report of the investigating officer, the Commissioner made a decision on 23rd August 2013 under 2003 and 2008 conduct regulations that there is a case to answer for misconduct. The decision determined that the matter would not be referred to a misconduct hearing on the grounds of public interest and that management action would be taken.

The Commissioner made a further decision on 23rd August to suspend TCC Mr Hyde under section 38 (2) of the Police Reform and Social Responsibility Act. This decision commenced procedures under section 38 (3) with a view to calling upon Mr Hyde, as Temporary Chief Constable, to resign or retire. In accordance with regulations a request was made for the written views of the Chief Inspector of Constabulary (HMIC). The Commissioner also wrote to the Police and Crime Panel.

Mr Hyde's appointment as Temporary Chief Constable came to an end on 30th August. As a consequence, and after that date, Mr Hyde reverted to Deputy Chief Constable, at which point the Commissioner no longer had jurisdiction to consider these matters.

The Commissioner has made public the reasons for all decisions that have been taken. In addition, an executive summary of the investigation report into conduct matters, including all the recommendations of the investigating officer, has been made public to aid transparency.

The recommendations of the investigating officer are being presented in a report to the Audit and Standards Committee. The Committee will also be presented with a joint action plan from the Constabulary and Police and Crime Commissioner that responds to those recommendations and any wider governance issues arising. The Committee will be tasked with monitoring the implementation of the joint action plan in line with their terms of reference in respect of recommendations and actions arising from audit and inspection.

Whilst the investigation report contained a total of 36 recommendations, these were made with reference to the performance management and wider governance arrangements in place at and up to four years prior to 13th September 2012. In preparation for the introduction of the Commissioner

on 22nd November 2012, governance arrangements within the OPCC and Constabulary underwent substantive review and update. In addition, minor changes have been made as a consequence of interim investigation findings.

To provide assurance with regard to the effectiveness of internal controls within the new arrangements for governance, the internal auditor has been asked to include an integrity audit within the 2013/14 internal audit plan. The audit review will cover significant areas arising within the report of the investigating officer and will report on the extent to which the recommendations arising from the HMIC integrity review have been implemented.

Areas for Further Development and Improvement

An action plan will be developed responding to the findings of the investigation report in respect of the allegations leading to the suspension of the Temporary Chief Constable. The internal auditors will undertake an integrity review to ensure the new governance framework is robust in respect of internal control and that HMIC integrity recommendations have been implemented.

Appendix D

Letter of management representation

The Police and Crime Commissioner for Cumbria
Financial Statements for the year ended 31 March 2013

This representation letter is provided in connection with the audit of the financial statements of The Police and Crime Commissioner (PCC) for Cumbria for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.

ii We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.

iii We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

iv Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

v We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.

vi We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been

identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).

vii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the code.

viii All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the code require adjustment or disclosure have been adjusted or disclosed. In particular, attention is drawn to:

The decision of the Commissioner on 23rd August under 2003 and 2008 conduct regulations that there is a case to answer for misconduct in respect of the investigation and suspension of Temporary Chief Constable Stuart Hyde. The decision determined that the matter would not be referred to a misconduct hearing on the grounds of public interest and that management action would be taken. This concludes the process in respect of the Police Authority decision of 13th September to suspend the Temporary chief Constable.

The decision of the Commissioner on 23rd August to suspend TCC Mr Hyde under section 38 (2) of the Police Reform and Social Responsibility Act 2011 and that Mr Hyde's appointment as Temporary Chief Constable ended on 30th August. As a consequence, and after that date, Mr Hyde reverted to Deputy Chief Constable at which point the Commissioner no longer had jurisdiction to consider the matter.

All relevant information has been provided to you as auditors to support the audit opinion in respect of these matters. Consideration has been given to the implications in respect of the statement of accounts and annual governance statement. The conclusions reached are that the accounts will be amended to reflect a non-adjusting post balance sheet event. The annual governance statement will be updated to reflect the development of a joint Constabulary/OPCC action plan to address points of governance raised in the investigation report into the conduct matters by South Wales Police. The recommendations within the report and a summary of the findings have been made public to aid transparency.

ix The financial statements are free of material misstatements, including omissions.

x We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xi We believe that the PCC's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the PCC's needs. We believe that no further disclosures relating to the PCC's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xii We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. unrestricted access to persons within the PCC from whom you determined it necessary to obtain audit evidence.

xiii We have communicated to you all deficiencies in internal control of which management are aware.

xiv All transactions have been recorded in the accounting records and are reflected in the financial statements.

xv We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xvi We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the PCC and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xvii We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the PCC's financial statements communicated by employees, former employees, regulators or others.

xviii We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xix We have disclosed to you the entity of the PCC's related parties and all the related party relationships and transactions of which we are aware.

Annual Governance Statement

xx We are satisfied that the Annual Governance Statement (AGS) fairly reflects the PCC's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS

Approval

The approval of this letter of representation was minuted by the Executive Board at its meeting on 23 September 2013.

Signed on behalf of The Police and Crime Commissioner for Cumbria

Mr Richard Rhodes
The Police and Crime Commissioner for Cumbria
23 September 2013

Police and Crime Commissioner for Cumbria

Statement of Accounts | 2012-13

(Single Entity Statements)

Police and Crime Commissioner for Cumbria

Statement of Accounts

(Single Entity Statements)

2012-13

Police and Crime Commissioner for Cumbria

Statement of Accounts 2012-13

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Annual Governance Statement(s)

The Annual Governance Statements (AGS) for the Police and Crime Commissioner and the Former Police Authority have been prepared in accordance with the Accounts and Audit Regulations 2011. In the Accounts and Audit (England) Regulations 2011, SI2011 No 817 – regulation 4(4) provides that the AGS is to accompany accounting statements. A link to the two separate AGS is provided below:

- Police and Crime Commissioner for Cumbria – AGS 2012-13
  http://www.cumbria-pcc.gov.uk/governance-transparency/audit-of-accounts.aspx

- Cumbria Police Authority & Constabulary – AGS 2012-13
  http://www.cumbria-pcc.gov.uk/governance-transparency/audit-of-accounts.aspx

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Bengali

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Cantonese

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Explanatory Foreword

Introduction

The Police and Crime Commissioner for Cumbria was established as a statutory entity on 22 November 2012 under the Police Reform and Social Responsibility Act 2011 (PRSRA 2011). The PRSRA 2011 provides that there will be a Police and Crime Commissioner for each police area with responsibility for ensuring the maintenance of the police force for the area, securing that the police force is efficient and effective and holding the Chief Constable to account. The Commissioner also has wider responsibilities than those solely relating to the police force, including specific responsibility for the delivery of community safety and crime reduction and wider responsibility for the enhancement of the delivery of criminal justice in their area.

The PRSRA 2011 also established the Chief Constable as a statutory entity, distinct from the Commissioner and with operational independence. The Chief Constable is responsible for maintaining the Queen's peace and the exercise of police powers. The Chief Constable is accountable to the Commissioner for leadership of the force, the delivery of efficient and effective policing and the management of resources and expenditure for the police force.

The Commissioner receives all funding, including government grants, council tax income and other sources of income related to policing and crime reduction. All funding for the Chief Constable must come from the Commissioner. The Commissioner will also set the strategic direction and is responsible for the totality of policing in the force area. This creates a subsidiary relationship between the Commissioner and the Chief Constable. As such, the Commissioner must publish a set of group consolidated accounts in addition to single entity accounts. The Chief Constable must publish single entity accounts and provide information to the Commissioner to support the publication of group accounts.

In the 2011-12 accounts for the Police Authority, a post balance sheet event was included in relation to the suspension of Mr Hyde the temporary Chief Constable on 13 September 2012. On 23rd August 2013 the Police and Crime Commissioner made a decision under conduct regulations in respect of this matter, resulting in the suspension being lifted. The Commissioner further took a decision to suspend TCC Mr Hyde under section 38(2) of the Police Reform and Social Responsibility Act 2011. Mr Hyde's appointment as Temporary Chief Constable ended on 30th August at which point the Commissioner no longer had jurisdiction. These matters gave rise to a post balance sheet event in the 2012-13 accounts as detailed on page 33.

These accounts are the single entity accounts of the Commissioner. They are published in accordance with the requirements of the Accounts and Audit regulations 2011. The aim of the financial statement is to demonstrate to the reader the overall financial position of the Commissioner at the end of the financial year together with the cost of the services provided during the year and the financing of that expenditure.

Background

The Commissioner incurs both revenue and capital expenditure, although revenue expenditure is by far the larger amount. Revenue expenditure can broadly be described as day to day running costs and includes most of the costs of operational policing in addition to expenditure with wider partners on community safety and crime reduction. It is funded through a mixture of government grants, the principle of which are the police grant and formula grant, together with locally raised income from Council Tax.

Capital expenditure is made up broadly of expenditure on non-current or fixed assets. These are assets that have a useful life of beyond one year and include expenditure on property, vehicles, ICT and other equipment. Capital expenditure is funded from a home office grant, capital receipts generated from the sale of capital assets and by direct contributions from revenue income.

Explanatory Foreword

The Accounting Statements

The Police and Crime Commissioner's accounts for the 2012-13 financial year are set out on the following pages. A brief explanation of the various parts of the statement and the different accounts is set out as follows:-

1. Introduction by the PCC Chief Finance Officer - Page 6

This contains a brief description of the sources and applications of revenue and capital funds plus an overview of the budget framework for 2012-13 together with a summary of the final position and an outlook for the future.

2. Responsibilities for the Accounting Statements - Page 13

This lays out the nature of and differentiation between the responsibilities of the Commissioner (PCC) and the PCC Chief Finance Officer (PCC CFO), with regards to the financial affairs of the Commissioner and for the preparation of the Statement of Accounts.

3. Statement of Accounting Policies - Page 18

Accounting policies can be defined as *"the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements".* A range of accounting policies and principles, which describe accounting treatments, supports the accounts in this statement. Unless otherwise stated, the accounting treatment is consistent with the guidance notes issued by CIPFA on the application of the various International Financial Reporting Standards (IFRS's) and the Code of Practice on Local Authority Accounting (the Code).

4. Movement in Reserves Statement – Page 34

This statement shows the movement in the year on the different reserves held by the Commissioner, analysed into 'Usable Reserves' (i.e. those that can be applied to fund expenditure or reduce taxation) and other (principally technical accounting) 'Unusable reserves'. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Commissioner's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the Police Fund Balance for council tax setting purposes, the adjustments for which are detailed in the line entitled 'adjustments between accounting basis and funding basis under regulations'. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory Police Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Commissioner.

5. Comprehensive Income and Expenditure Statement - Page 35

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Taxation is raised to cover expenditure in accordance with regulations; this may be different from the accounting cost. The Commissioner prepares this statement in accordance with the service expenditure analysis as required by the Service Reporting Code of Practice (SERCOP), but as in previous years a subjective analysis is provided in the notes to the accounts (note 24b). The taxation position is shown in the Movement in Reserves Statement.

6. Balance Sheet - Page 36

The Balance Sheet shows the value as at the balance sheet date of the assets and liabilities recognised by the Commissioner. The net assets (assets less liabilities) are matched by the reserves held by the Commissioner. Reserves are reported in two categories. The first category of reserves are useable reserves, i.e. those reserves that the Commissioner may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the Commissioner is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

7. Cash Flow Statement - Page 37

The Cash Flow Statement shows the changes in cash and cash equivalents of the Commissioner during the reporting period. The statement shows how the Commissioner generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Commissioner are funded by way of taxation and grant income or from the recipients of services. Investing activities represent the extent to which cash outflows have been generated from resources which are intended to contribute to the Commissioner's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing).

8. Notes to the Financial Statements – Page 38

These notes explain in more detail a number of entries in the primary financial statements.

9. Glossary of Terms - Page 89

This is an explanation of the various technical accounting terms and acronyms, which appear throughout this statement.

Introduction by the PCC Chief Finance Officer

I am pleased to introduce the single entity financial Statement of Accounts for the 2012-13 financial year. This is the first set of accounts for the Police and Crime Commissioner for Cumbria, setting out the financial position in respect of the Commissioner. On 22 November 2012 the Police and Crime Commissioner and the Chief Constable were established as separate legal entities each with a requirement for single entity accounts. The funding and accountability relationship between the entities meets the definition of a subsidiary for the Chief Constable. This results in a requirement for consolidated group accounts to be prepared by the Commissioner. The financial statements set out the single entity accounts and have been produced on the basis of merger accounting. This means that the financial statements show income and expenditure from 1 April 2012, as if the Commissioner and Chief Constable had been in existence as statutory entities for the full financial year.

The statements provide a breakdown of net spending during the year and show the strong overall financial position of the Commissioner as at 31 March 2013, despite the impact of significant funding reductions. The reporting format is specifically designed to meet the requirements of the Code of Practice on financial reporting. A series of notes are provided to assist readers in their understanding of the statements, whilst the presentational format is designed to make for easier reading by those who access the document through the Commissioner's web site: www.cumbria-pcc.gov.uk. Readers can also access from the website the Commissioner's consolidated group accounts and the single entity accounts of the Chief Constable.

2012-13 Grant Settlement and Budget

The net budget for 2012-13 of £101.035m was set on 15 February 2012. Funding of this amount came from formula and capital grants (£65.445m) and income from Council Tax and the Commissioner's share of district council's collection funds (£35.590m). The budget was set in the context of a four year medium term financial forecast over which income was expected to remain broadly balanced with reductions in central government funding offset by increases in income from Council Tax. Whilst the net position was expected to be consistent over 4 years in respect of income, the position represents a real term reduction in spending power as a consequence of the expected increase in costs from inflation and pay awards over the 4 year period. This results in a requirement for a further £7.6m in cuts against expenditure over and above the £11.7m that is planned for delivery following the 2010 comprehensive spending review. Council tax was increased by 3.6%. This took the Commissioner's proportion of the band D equivalent council tax to £200.79 per annum. The effect of the increase is to support the medium term financial forecast and mitigate some of the impact of cost increases.

Council Tax Requirement 2012-13	£m	£m
Council Tax Requirement 2011-12		34.313
Increase in cost of providing services	1.230	
Management of change costs	(0.198)	
Increase in income and specific grants	(2.216)	
Reduction in general grant funding	3.779	
Savings and efficiency gains	(6.165)	
Increase in contingencies	0.310	
Reduction in redistributed council tax surplus	0.075	
Reduction in net use of reserves	4.459	
		1.274
Council Tax Requirement 2012-13		**35.587**

Introduction by the PCC Chief Finance Officer

Total income from Council Tax and the Commissioner's share of the net surplus on district collection funds was estimated to be £35.590m for 2012-13. Of this, £35,587m relates to Council Tax income, a net increase of £1.274m compared to 2011-12. The most significant factors contributing to the net increase are a £3.779m reduction in general grant funding and a £4.459m reduction in the use of reserves to support the budget. This is offset by over £6m of savings and efficiencies and a £2.2m increase in income and specific grants.

The Commissioner receives additional specific, special and departmental revenue grants from the Home Office (and others) towards sponsored programmes, capital grants towards capital projects and pensions top up grant equal to the Commissioner's deficit contribution in support of police officer pensions.

These additional grants received compared to the budgeted figures for 2012-13 and the actual for 2011-12 were as follows. These are set out in greater detail in the notes indicated below:

Additional Grants and Contributions	2011-12 Actual £m	2012-13 Budget £m	2012-13 Actual £m
Revenue (see note 31, page 82)	4.465	3.903	3.939
Capital (see note 31, page 82)	1.139	1.059	1.059
Pensions (see note 31, page 82)	10.304	12.091	12.058
	15.908	**17.053**	**17.056**

Police and Crime Commissioner Police Fund

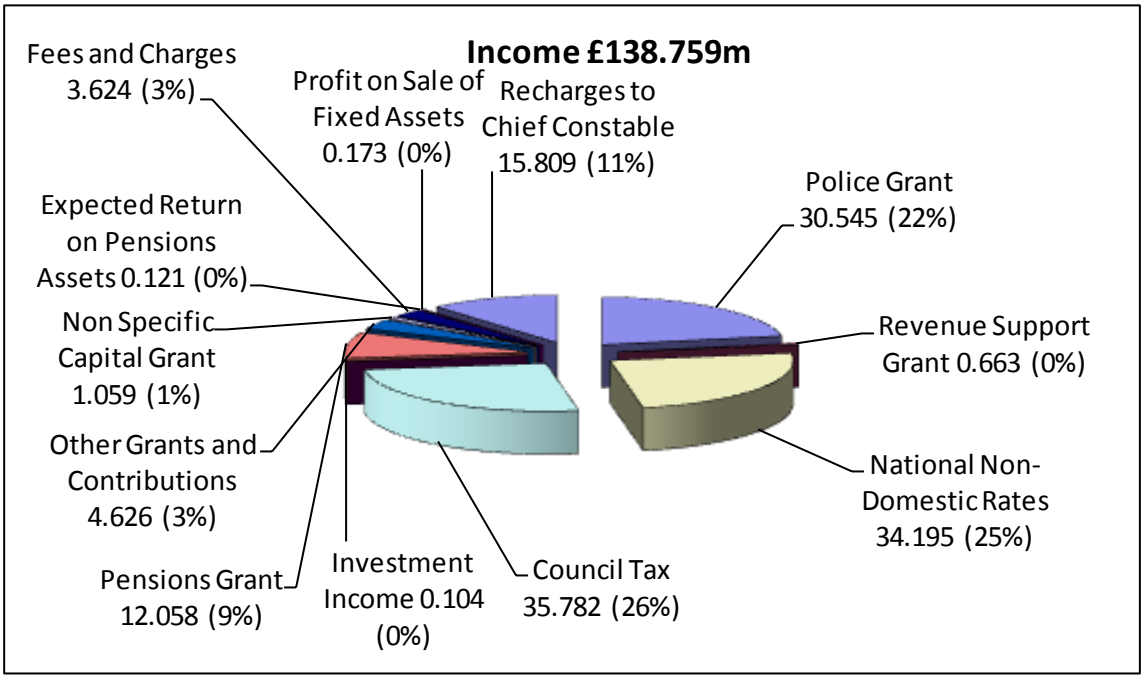
The table below shows the movement on the Commissioner's Police Fund during the financial year. The Commissioner's policy to date has been that the Police Fund balance should be maintained at 5% of the annual budget (net of the contribution to the Police Fund itself). At 31 March 2013 this resulted in a balance of £5.15m

Police Fund Balance	As at 31st March 2012 £'000	2013 £'000
Balance at start of year	5,149	5,149
Contribution to / (from) the Police Fund for the year	(7)	(16)
Capital Receipts Transferred to Police Fund	7	16
Balance at end of year	**5,149**	**5,149**
Balance as % of budget requirement	(5.0%)	(5.1%)

Introduction by the PCC Chief Finance Officer

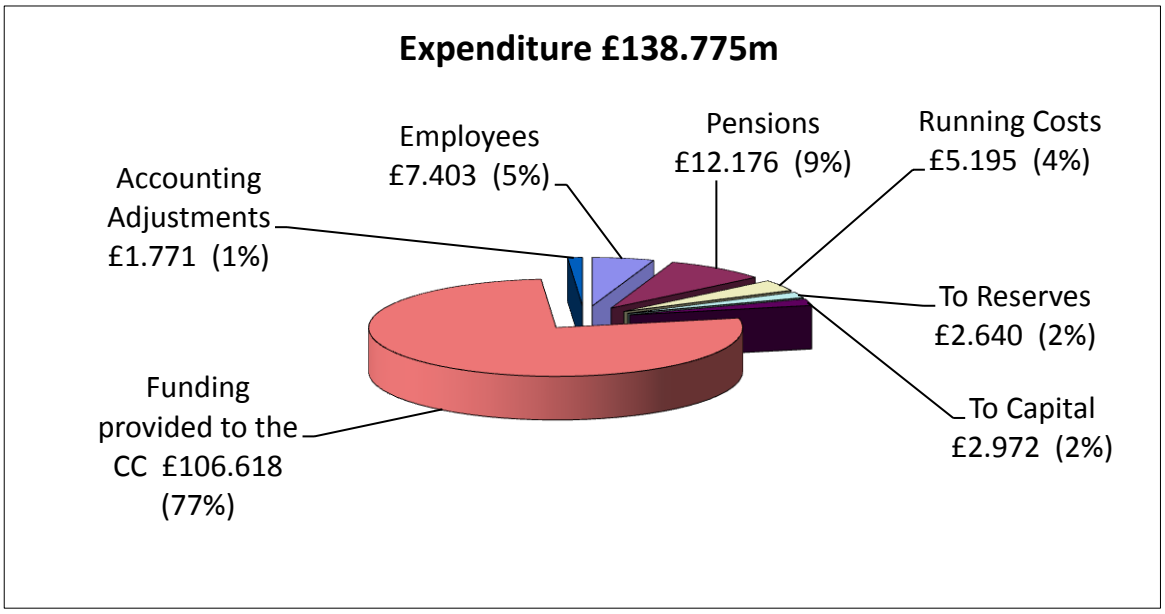
Where the Money Came From

The sources of finance for 2012-13 expenditure are set out in the chart below:



What the Money Was Used For

An analysis of the revenue expenditure for 2012-13 is set out below. The chart demonstrates that the most significant area of expenditure is funding provided to the Chief Constable (77%).



The charts above are drawn from the Subjective Analysis of Net Operating Expenditure shown in note 24b, page 74.

Introduction by the PCC Chief Finance Officer

The Police Capital Account

In 2012-13 Capital Expenditure amounted to £3,879k. The program primarily comprised I.T. schemes (£1.30m), building works (£1.26m), expenditure on vehicle replacements (£0.99m) and operational equipment. A summary of the payments and how these were financed is set out in the table below:

Capital Expenditure & Financing	2011-12 £'000	2012-13 £'000
Capital Expenditure		
Technology Related Schemes	1,873	1,302
Vehicle Replacement Schemes	853	988
Building Schemes	1,295	1,261
Operational Equipment	46	87
Intangible Assets (predominantly Software)	94	241
	4,161	**3,879**
Financed by		
Capital Receipts	(471)	(120)
Other Capital Grants and Contributions	(1,117)	(651)
Direct Revenue Financing	(1,700)	(2,972)
Borrowing (Notional/Internal)	(873)	(136)
	(4,161)	**(3,879)**

In 2012-13 the Commissioner has continued to fund the borrowing requirement arising from the capital programme internally. This is due to the Commissioner's high level of cash reserves and the relatively low interest rates available on investing such balances. At the end of the financial year £17.690m (inclusive of PFI contract) of the capital programme is funded by the use of cash backed internal reserves rather than borrowing from the open market. At some point during the forward interest rate cycle, the Commissioner will need to consider taking up external equivalent borrowings.

Introduction by the PCC Chief Finance Officer

The Police Revenue Account

Final revenue expenditure for the financial year is summarised in the table below showing total net expenditure. It also includes capital charges for using fixed assets and pensions adjustments as required by IAS19, together with the necessary financing adjustments to ensure that they do not impact on local taxpayers. The net final outturn for the year after appropriations to earmarked and capital reserves amounted to £102,260k, which resulted in a net reduction in the Police Fund of £16k. The reduction in the Police Fund offsets an increase of £16k, resulting from capital receipts transferred directly to the Police Fund to meet the costs of disposal of land and building assets, leaving the Police Fund balance unchanged at the year end.

Net Expenditure:-	2011-12 £'000	2012-13 £'000
Net Cost of Services	**117,008**	**115,897**
Contribution to / (from) Reserves	(1,716)	3,240
Contribution to / (from) Capital Reserves	3,776	(600)
Transfer to/(from) Capital Grant Unapplied	1,139	1,059
Capital Expenditure met from Revenue Account	1,701	2,972
Financing Adjustments	(6,799)	(8,250)
Pensions Top Up Grant	(10,304)	(12,058)
Total Net Expenditure	**104,805**	**102,260**
Financed By:-		
Police Grant	(33,055)	(30,545)
Revenue Support Grant	(8,530)	(663)
National Non-Domestic Rates	(27,596)	(34,195)
Income from Council Tax	(34,478)	(35,782)
Non Specific Capital Grant	(1,139)	(1,059)
Total Financing	**(104,798)**	**(102,244)**
Contribution to / (from) Police Fund Balance	**7**	**16**

Introduction by the PCC Chief Finance Officer

Pensions Deficit

The Commissioner's 2012-13 balance sheet shows a pensions deficit of for the LGPS to which its employees and former employees belong. However, statutory arrangements for funding the deficit, through increased contributions over a period designed to balance the pensions account and central Government funding mean that the financial position of the Commissioner remains healthy.

Amounts Written Off

The Commissioner has a good collection record in respect of invoices raised for services provided. During 2012-13 only three sundry debtor invoices totalling £417 were authorised to be written off as not collectable. The Bad Debt Provision stands at £2,043 (£2,600 in 2011-12) against the future potential that not all outstanding invoices will prove to be 100% collectable. See Note 14 (Page 55).

Financial Outlook

Whilst the Commissioner's financial position remains robust, the medium term position continues to be challenging. Gross income, at the time of setting the 2013-14 budget, was forecast to be £122.3m but with an estimated reduction to £118.6m by 2016-17. The 2015 spending review is expected to make further reductions in the total level of resources available. In addition work is commencing on a fundamental review of formula funding for Police and Crime Commissioners. The Constabulary, as the main recipient of funding from the Commissioner, has planned for a reciprocal reduction in expenditure in its proposed budgets to ensure an overall balance of resources. Wherever possible reductions seek to protect front line services. Changes to the overall level of funding and the review of formula do however present a degree of uncertainty in respect of the level of income beyond 2014-15.

Contingencies and Reserves

The Commissioner formally recognises the need for contingencies against unplanned and planned expenditure in the future which cannot be accurately quantified at the time of closing the accounts. The Commissioner's Police Fund Balance at 31 March 2013 stands at £5.149m. This represents 5% of the net budget and will be held at this level pending the 2014-15 grant settlement. In addition a number of specific earmarked reserves are maintained to address specific areas of expenditure, usually of a non-recurring nature, which must be incurred over a period of years, but which cannot be formally quantified at the time of closing its accounts. These Reserves totalling £21.565m are detailed in note 5 on page 42.

Material Events after the Balance Sheet date

There have been no material events after the date of the Balance Sheet up to the date of my certificate below which have been, or which were required to be, reflected in the Statement of Accounts for the year ending on 31 March 2013.

Introduction by the PCC Chief Finance Officer

Acknowledgements

The financial statements were originally authorised for issue by me as PCC Chief Finance Officer, on 29 June 2013. Following completion of the audit, they were re-authorised by me on 23 September 2013 and were formally approved by the Police and Crime Commissioner at a meeting of the Executive Board on the same date.

In closing, it is appropriate to acknowledge the dedication and professionalism of Roger Marshall, the Chief Constable's Chief Finance Officer, Michelle Bellis, Lorraine Holme and the wider finance team in again achieving the closure of accounts. For 2012-13 this has included the publication of these Statements, the Consolidated Group Statements and the Constabulary Statements against challenging deadlines and complexities with regard to accounting for the financial relationship between the Commissioner and Chief Constable.

Ruth Hunter
PCC Chief Finance Officer

Further information relating to this publication can be gained by contacting:

Mr. W. R. Marshall, CPFA, Chief Constable's Chief Finance Officer, Financial Services, Corporate Support Department, Police H.Q. Carleton Hall, Penrith CA10 2AU (Tel: 01768 217020).

This publication and the more simplified (non-statutory) summary statements are published on the Commissioner's web site and can be accessed by the public from the following web link: www.cumbria-pcc.gov.uk

The accounts present a true and fair view of the position of the Police and Crime Commissioner as at 31 March 2013 and its income and expenditure for the year there ended.

PCC Chief Finance Officer

Ruth Hunter CPFA _____ Date _____

The accounts present a true and fair view of the position of the Police and Crime Commissioner as at 31 March 2013 and its income and expenditure for the year there ended.

Police and Crime Commissioner for Cumbria

Richard Rhodes _____ Date _____

Responsibilities for the Statement of Accounts

1 The Commissioner's Responsibilities

The Police and Crime Commissioner (PCC) is the recipient of funding relating to policing and crime reduction and has statutory responsibility for the Police Fund. The Commissioner is required to:

- Make arrangements for the proper administration of his financial affairs and to secure that one of his officers has the responsibility for the administration of those affairs. In this organisation, that officer is the PCC Chief Finance Officer.
- Manage his affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts.

2 The PCC Chief Finance Officer's Responsibilities

The PCC CFO is responsible for the production of the Statement of Accounts of the PCC, ensuring the receipt and scrutiny of the Statement of Accounts of the Chief Constable and for ensuring the production of group accounts. The PCC CFO is responsible for the preparation of the Commissioner's Statement of Accounts and the group accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Account, the PCC CFO has:

- selected suitable accounting policies and then applied them consistently;
- made judgments and estimates that are reasonable and prudent;
- complied with the local authority code.

The PCC CFO has also:

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The PCC CFO should sign and date the Statement of Accounts, stating that it presents a true and fair view of the financial position of the organisation at the reporting date and its income and expenditure for the year ended 31 March 2013.

Independent Auditor's Report

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Independent Auditor's Report

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4 blank pages left for audit opinion to be inserted after audit completed in September.

Statement of Accounting Policies

1 General Principles

The Statement of Accounts summarises the financial transactions for the 2012/13 financial year and the financial position at the 31 March 2013. The Police and Crime Commissioner and Chief Constable are each required to prepare an annual Statement of Accounts (single entity) in accordance with the Accounts and Audit Regulations 2011 which stipulate that the statements be prepared in accordance with proper accounting practices. Those practices primarily comprise the CIPFA/LAASAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) and the Service Reporting Code of Practice 2012/13 (SERCOP), supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 act. The Police and Crime Commissioner is responsible for combining the single entity statements to form a set of consolidated group accounts.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets.

2 Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the provision of services is recognised when the percentage completion of the transaction can be reliably measured and that it is probable that economic benefits or service potential associated with the transaction will flow.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories (stock) on the Balance Sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

- An accrual is made in respect of employee benefits payable during employment (see accounting policy 7 below for further details).

3 Cash and Cash Equivalents

Cash is represented by cash in hand, imprests (petty cash) and demand deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents may also include overdrawn balances at the bank where they are an integral part of cash management. Generally, cash and cash equivalents will comprise, cash in hand, bank account balances, overnight deposits and deposits with Money Market Funds which are repayable on demand without penalty or loss of interest. In accordance with the terms of the Commissioner's funding agreement to the Chief Constable, the Chief Constable is funded on a cash basis, accordingly all cash and cash equivalent balances are recorded on the balance sheet of the Commissioner.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand or form an integral part of cash management.

4 Exceptional Items

When exceptional items of income and expense are material, their nature and value is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of financial performance.

5 Prior period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or when the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the financial position or performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts and notes for the prior period as if the new policy had always been applied.

6 Charges to Revenue for Non-Current Assets

The cost of services are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant services.
- Revaluation and impairment losses on assets used by the services where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
  Amortisation of non-current assets attributable to the services.

Council Tax is not required to be raised to fund depreciation, revaluation and impairment losses or amortisations. However, an annual contribution from revenue is required towards the reduction in overall borrowing requirement equal to an amount calculated on a prudent basis and determined in accordance with statutory guidance. This contribution is known as MRP (Minimum Revenue Provision). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the Police Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the

two. In accordance with the terms of the Commissioner's funding agreement to the Chief Constable, the Commissioner holds all non-current assets. Accordingly, all depreciation, revaluations and impairments are recorded in the Commissioner's single entity statement. However, the Commissioner makes a charge to the Chief Constable for the use of non-current assets, which is equivalent to his share of depreciation.

7 Employee Benefits

7.1 Employee Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for functions in the year in which employees render service. An accrual is made for the cost of holiday entitlements, time off in lieu, flexi leave and rest days in lieu earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the salary rate applicable at the balance sheet date. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday and other benefits are charged to revenue in the financial year in which the holiday absence occurs. ~~At the time of preparation of the accounts the Chief Constable has not been granted Local Authority status and therefore lacks the statutory power to reverse the accrual for employee benefits. The accrual for employee benefits for all officers and staff is therefore recorded in the accounts of the Commissioner.~~

7.2 Termination Benefits

Termination benefits are amounts payable as a result of a decision to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged (on an accruals basis) to the relevant service line in the Comprehensive Income and Expenditure Statement.

Where termination benefits involve enhancement of pensions, statutory provisions require the Police Fund balance be charged with the amount payable to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and any such amounts payable but unpaid at the year-end.

8 Post-Employment Benefits

8.1 General

There are two pension schemes for police officers and a single scheme for police staff. They are all defined benefits schemes. All accounting entries relating to the Comprehensive Income and Expenditure Statement and the subsequent liability for police officer pensions are wholly recorded in the Chief Constable's single entity accounts. For police staff all Comprehensive Income and Expenditure Statement entries and subsequent balance sheet liabilities in relation to pensions are apportioned between the Commissioner and the Chief Constable single entity statements on a head count basis.

The liabilities of the LGPS are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement

benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc and projections of earnings for current employees. Liabilities are discounted to their fair value at current prices using a discount rate (see assumptions set out in note 18, page 62).

The change in the net pension's liability is analysed into seven components:

- Current service costs – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employee worked.
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- Interest costs – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Expected return on assets – the annual investment return on the fund assets (Local Government Pension Scheme (LGPS) only), based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Gains or losses on settlements and curtailments – the result of actions to relieve liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited/credited to the Pensions Reserve.
- Contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expenses.

In relation to retirement benefits, statutory provisions require the Police Fund to be charged with the amount payable to the pension funds in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pension Reserve thereby measures the beneficial impact to the Police Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Note 18 to the primary financial statements provides further information about the pension schemes.

8.2 Police Officers

From 1st April 2006 legislation required the operation of a Pension Fund Account. The amounts that must be paid into and out of the fund are specified by regulation. Officers' contributions and the employer's contributions are paid into the pension fund account from which pension payments are made. Any shortfall on the pension fund account is met by a contribution from the police fund. A Home Office Grant is received to cover this contribution. Conversely, a surplus on the Pension Fund Account would result in a contribution to the police fund, which would then be recouped by the Home Office. As the Commissioner is responsible for maintaining the police fund the receipt of Home Office pension grant and corresponding contribution to balance the Police Pension Fund Account are

shown in the accounts of the Commissioner.

8.3 Police Staff

Police staff, subject to certain qualifying criteria, are eligible to join the LGPS, which is a funded defined benefit scheme. Pensions and other retirement benefits are paid from the fund. Employers and employees make regular contributions into the fund so that the liabilities are paid for evenly over the employment period.

Actuarial valuations of the fund are undertaken every three years to determine the contribution rates needed to meet its liabilities.

The assets of the LGPS pension fund are included in the Balance Sheet at their fair value:

- Quoted securities – current bid price
- Unquoted securities – professional estimate
- Unitised securities – current bid price
- Property – market value

The Accounts show the full implementation of IAS19 (Employee Benefits). IAS19 requires organisations to recognise retirement benefits in the Comprehensive Income and Expenditure Statement when they are earned, even though the benefits will not be payable until employees retire. However, as statutory procedures require the charge against Council Tax to be based on the amounts payable to the pension fund during the year, an appropriation is made within the pensions reserve equal to the net change in the pensions liability recognised in the Comprehensive Income and Expenditure Statement. The neutralising entry is made through the Movement in Reserves Statement. The Balance Sheet discloses the net liability in relation to retirement benefits. The figures are based on the Actuary's latest estimate.

There are restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and are accounted for using the same policies as applied to the LGPS.

9 Events after the Balance Sheet Date

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date the Statement of Accounts is authorised for issue which have an impact on the financial statements and are treated as follows. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the event and their estimated financial effect.

10 Financial Instruments - Financial Liabilities

Financial Liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

For borrowings this means that the amount presented on the Balance Sheet is the outstanding amount of principal repayable and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement. Borrowing is undertaken and accounted for in accordance with the Treasury Management Strategy. Where a payable (i.e. creditor) has a maturity of less than 12 months the fair value is taken to be the principal outstanding, or the billed/invoiced amount. In accordance with the Commissioner's funding arrangement to the Chief Constable all financial instruments – liabilities, including borrowing and trade creditors are held by the Commissioner.

11 Financial Instruments - Financial Asset

Financial assets are classified into two types:

- Loans and Receivables – assets that have fixed or determinable payments but are not quoted in an active market. Trade debtors and investments are classified as loans and receivables.
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments. There are no available-for-sale assets.

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. Where a receivable (i.e. debtor) has a maturity of less than 12 months, the fair value is taken to be the principal outstanding or the billed/invoiced amount. Investments are shown in the balance sheet at cost. Where investments are fixed term deposits, accrued interest owing at the balance sheet date is included in the Comprehensive Income and Expenditure Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement. An example of such a charge would be the adjustment made to the debtors balance as a provision for bad debts (see note 14, page 55).

Investments are undertaken and accounted for in accordance with the Treasury Management Strategy.

In accordance with the Commissioner's funding arrangement to the Chief Constable all financial instrument assets including investments and trade debtors are held by the Commissioner.

12 Government Grants and Contributions

Whether paid on account, by installments or in arrears, government grants and third party contributions and donations are recognised as due when there is reasonable assurance of:

- compliance with the conditions attached to the payments, and
- the grants or contributions being received.

Amounts recognised as due are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor. Monies advanced as grants or contributions for which conditions have not been satisfied are carried

on the balance sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant function line (attributable revenue grants and contributions) or Taxation and Non-Specific Grants Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

In accordance with the statutory responsibility of the Commissioner to maintain the Police Fund contained in the Police and Social Responsibility Act all grants and contributions are recognised in the accounts of the Commissioner.

13 Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset. Intangible assets are initially measured at cost amounts and are only revalued where the fair value of the asset can be determined by an active market. The depreciable amount of an intangible asset is amortised over its useful life (usually 5 years) to the relevant function(s) in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The amortisation, impairment and gains and losses on disposal are therefore reversed out of the General Fund in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds over £10,000) the Capital Receipts Reserve. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. In accordance with the terms of the Commissioner's funding arrangement to the Chief Constable all intangible assets are held by the Commissioner.

14 Inventories

Inventories (stocks) are included in the balance sheet at historic cost. This is a departure from IAS2 which requires inventories to be valued at the lower of cost or net realisable value. However, for many stock items, net realisable value would be minimal and would not accurately reflect the value of holding these assets.

15 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and building elements are considered separately for classification.

Agreements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfillment of the arrangement is dependent on the use of specific assets.

15.1 Finance leases (as Lessee)

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer at the end of the lease period).

Council tax is not required to be raised to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund balance, by way of an adjusting transaction within the Capital Adjustment Account in the Movement in reserves Statement for the difference between the two.

15.2 Operating Leases (as Lessee)

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the functions benefitting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease.

15.3 Finance Leases (as Lessor)

There are currently no finance leases as a lessor.

15.4 Operating Leases (as Lessor)

Rentals received under operating leases are credited to the other operating expenditure line within the Comprehensive Income and Expenditure Statement, except where the property has been classified as an investment property, in which case the income is shown in the financing and investment income and expenditure line.

16 Treatment of Overheads

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2012/13 (SERCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the status as a democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on assets held for sale.

The two cost categories are defined in the Service Reporting Code of Practice (SERCOP) and accounted for as separate headings in the Comprehensive Income and Expenditure Statement as part of Cost of Services.

Under the Commissioner's funding arrangement to the Chief Constable premises costs (except where they are directly attributable to the Chief Constable) are initially recorded in the accounts of the Commissioner and a recharge is made to the Chief Constable in the single entity comprehensive income and expenditure statements on an appropriate basis. Transport and supplies and services costs (except where they are directly attributable to the Commissioner) are initially recorded in the accounts of the Chief Constable and a recharge is made to the Commissioner in the single entity comprehensive income and expenditure statements on an appropriate basis.

17 Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

17.1 Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits (i.e. repairs and maintenance) is charged to revenue as an expense through the Comprehensive Income and Expenditure Statement when it is incurred. De-minimis levels have been set for capital projects at £25,000. No de-minimis level is set for individual items within capital projects.

17.2 Measurement

Assets are initially measured at cost, comprising:

- The purchase price
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

Borrowing costs incurred are not capitalised whilst assets are under construction.

Assets are then carried in the Balance Sheet using the following measurement basis:

Category	Basis of valuation
Land and Buildings (Specialised)	Depreciated Replacement Cost
Land and Buildings (Non Specialised)	Existing Use Value
Vehicles, Plant, Furniture & Equipment	Depreciated Historic Cost (as a proxy for fair value)
Assets Held for Sale	Market Value (or carrying amount if lower)
Assets Under Construction	Historic Cost

Assets included in the Balance Sheet at fair value (i.e. not valued at historic cost) are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Gains are to be credited to the relevant function line(s) in the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a function up to the amount of the original loss, adjusted for depreciation (if material) that would have been charged if the loss had not been recognised. Valuations are carried out by Mr. C. Smith BSc MRICS, Carigiet Cowen, Telford House, Riverside, Warwick Road, Carlisle CA1 2BT.

Where decreases in value are identified, they are accounted for as follows:-

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant function lines(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal inception. Gains arising before that date have been consolidated into the Capital Adjustment Account. Revaluation gains and losses are not permitted to have an impact on the General Fund. The gains and losses are therefore reversed out of the General Fund in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

17.3 Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:-

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant function line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently by a revaluation gain, the reversal is credited to the relevant function line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation (if material) that would have been charged if the loss had not been recognised.

Impairment losses are not a charge against Council Tax. The balance on the Comprehensive Income and Expenditure Statement arising from an impairment loss is appropriated to the Capital Adjustment Account through the Movement in Reserves Statement.

The impairment reviews are carried out by Mr. C. Smith BSc MRICS, Carigiet Cowen, Telford House, Riverside, Warwick Road, Carlisle CA1 2BT.

17.4 Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land) and assets that are not yet available for use (i.e. assets under construction). Depreciation is calculated on the following bases:

- Land and Buildings - straight-line allocation over the useful life of the property as estimated by the valuer up to a maximum of 50 years
- Vehicles – straight line allocation over the estimated useful life (3 to 10 years)
- IT Equipment – straight line allocation over the estimated useful life (5 to 8 years)

No depreciation charge is made however in the year of acquisition but a full year charge is made in the year of disposal. A full year's depreciation charge is made in the year of revaluation of any asset.

Depreciation also has to be calculated on revaluation gains and is represented by the difference between depreciation calculated at current cost and depreciation calculated at historic cost. The difference between the two values is transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately (see accounting policy 17.7 below).

17.5 Disposal and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less cost to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Disposal costs are shown in other operating expenditure in the Comprehensive Income and Expenditure Statement. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). In line with Statutory Instrument 2010 No 454, disposal costs of up to 4% of the sale proceeds are financed from capital receipts. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account. The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate

arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

17.6 Capital Receipts

Amounts received for a disposal in excess of £10,000 are categorised as Capital Receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the underlying need to borrow (the capital financing requirement). Receipts are appropriated to the reserve from the General Fund Balance in the Movement in Reserves Statement.

17.7 Component Accounting

Under the IFRS based code, separate recognition, depreciation and derecognition of parts of assets is required. This is often referred to as componentisation. Componentisation is a change that has to be applied prospectively which means that it only needs to be considered for any non-current assets, acquired, improved or revalued after 1 April 2010. A componentisation policy has been established whereby all land and building assets with a value in excess of £1m will be assessed to see if they contain a significant component. A significant component is defined in the policy as one which exceeds £200k in value and has a different life to the remainder of the asset. Where a component of a non-current asset is replaced or restored, the carrying amount of the old component shall be derecognised and the new component reflected in the carrying amount. Each significant component of an item of property, plant or equipment is depreciated separately. Depreciation is calculated on the balance brought forward at the start of each year. Depreciation on the componentised assets will therefore only become effective in the year following revaluation and subsequent split for componentisation. Under the terms of the Commissioners funding arrangement to the Chief Constable all property, plant and equipment is held by the Commissioner. Accordingly, all accounting entries in relation to the acquisition, enhancement, revaluation, impairment, depreciation and sale of such assets are recorded in the single entity accounts of the Commissioner. As noted in policy 6 the Commissioner makes a charge to the Chief Constable for the use of such assets which is equivalent to the Chief Constable's share of depreciation.

18 Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the Police Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the police fund balance. The gains and losses are therefore reversed out of the Police Fund Balance in the Movement in reserves Statement and posted to the Capital adjustment Account and (for any sale proceeds greater that £10,000) the Capital Receipts Reserve.

Investment assets are not generally held, however, in some circumstances where a surplus property

no longer meets the strict criteria to be classified as "held for sale", it must be classified as an investment property.

19 Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the services that are provided under the PFI scheme are deemed under the PFI contract to be controlled, the asset is carried on the Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the Balance Sheet are re-valued and depreciated in the same way as property, plant and equipment.

The amounts payable to the PFI operator each year are analysed into four elements:

- Fair value of the services received during the year – debited to the relevant function in the Comprehensive Income and Expenditure Statement.
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write downs is calculated using the same principles as for a finance lease).
- Lifecycle replacement costs – a proportion of the amounts payable is posted to the Balance sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

There is currently one PFI scheme recognised on the Balance Sheet and this relates to the West Cumbria TPA HQ at Workington. Under the terms of the Commissioner's funding arrangement to the Chief Constable the Commissioner controls all property and, accordingly, the PFI building is recorded on the balance sheet of the Commissioner. A charge is made by the Commissioner to the Chief Constable in the comprehensive income and expenditure statement for the Chief Constable's use of the building and the services provided. Further details of the arrangement and accounting treatment can be found in note 19 (pages 64-65) of the notes to the accounts.

20 Heritage Assets

There are a small number of items that fall under the definition of heritage assets. Due to their diverse nature and lack of historical cost information specialist valuations would be required in order to obtain a reliable estimated value to include in the accounts. The cost of obtaining such valuations would outweigh the benefits gained and therefore no values are included in the balance sheet.

21 Provisions, Contingent Liabilities and Contingent Assets

21.1 Provisions

Provisions are made when an event has taken place that gives a legal or constructive obligation that probably requires settlement by transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, involvement in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate function line in the Comprehensive Income and Expenditure Statement in the year that awareness of the obligation arises, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account the relevant risks and uncertainties. Details of provisions made during the year are shown in the notes to the accounts (note 16, page 59).

When payments are eventually made, they are charged to the provision carried on the Balance Sheet. Estimated settlements are reviewed at the end of each financial year where it becomes less than probable that a transfer of economic benefits will subsequently be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant function.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the obligation is settled.

21.2 Contingent Liabilities

A contingent liability arises where an event has taken place that gives a possible obligation which will only be confirmed by the occurrence or otherwise of uncertain future events which cannot wholly be controlled. Contingent liabilities also arise in circumstances where a provision would otherwise be made but it is either not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised on the Balance Sheet but disclosed in a note to the accounts.

21.3 Contingent Assets

A contingent asset arises where an event has taken place that gives rise to a possible asset which will only be confirmed by the occurrence or otherwise of uncertain future events which cannot wholly be controlled.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

22 Reserves

Specific amounts are set aside as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the Police Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate function in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Reserves are classified in the Balance Sheet and the Movement in Reserves Statement as either

'useable' (those that can be applied to fund expenditure or reduce local taxation) and 'unusable' (those held for technical accounting purposes). Under the Commissioner's funding arrangement to the Chief Constable all usable reserves are controlled by the Commissioner and recorded in the balance sheet of the Commissioner.

23 Material Estimation Techniques

IAS 1 Presentation of Financial Statements requires disclosure of any estimation techniques applied, such that if a different methodology had been used a material variance in the amounts disclosed would have been arrived at. The only material estimation techniques used are as follows: -

23.1 Pension Disclosure Note:-

Where the projected unit method of valuation has been applied and which is consistent with the required methodology in IAS 19. This is a valuation method in which the scheme liabilities make an allowance for projected earnings. An accrued benefits valuation method is one in which the scheme liabilities at the valuation date relate to:

(a) the benefits pensioners and deferred pensioners (i.e. individuals who have ceased as active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases, and

(b) the accrued benefits for members in service on the valuation date. The accrued benefits are the benefits for service up to a given point in time, whether vested or not.

For 2012/13 a discount rate based on the current rate of return on a high quality corporate bond of equivalent currency and term to scheme liabilities is to be used. The actuary for the LGPS pension fund has advised that a rate of between 4.3% and 4.4% is appropriate.

23.2 Property Revaluations

All buildings are revalued on a rolling five-year programme and the estimation techniques used are based on the "open market value in existing use" or in the case of specialised police properties "depreciated replacement cost" which is consistent with proper accounting practice. The professional valuer, Mr. C. Smith of Carigiet Cowen, applied these valuation methods.

24 Collection Fund

Council Tax is collected from local taxpayers by the billing authorities (district councils). The billing authorities in England are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax. The fund's key features relevant to accounting for Council Tax in the core financial statements of the billing authorities are:

- In its capacity as a billing authority the council acts as agent; it collects and distributes Council Tax income on behalf of the major preceptors (County Council and the Police and Crime Commissioner for Cumbria) and itself.
- While the Council Tax income for the year credited to the collection fund is accrued income for the year, regulations determine when it should be released from the collection fund and transferred to the General Fund of the billing authority or paid out of the collection fund to major preceptors.
- Up to 2008-09 the SORP required the Council Tax income included in the Comprehensive Income and Expenditure Statement to be that which under regulation was required to be transferred from the collection Fund to the General fund of the billing authority. The Major precepting bodies were simply required to show the precept received from the billing authority for the year.

From the year commencing 1 April 2009, the Council Tax income included in the Comprehensive Income and Expenditure Statement for the year shall be the accrued income for the year. The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the collection fund shall be taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

Since the collection of Council Tax is, in substance, an agency arrangement, cash collected by the billing authority from Council Tax debtors belongs proportionately to the billing authority and the major preceptors. There will be therefore a debtor/creditor position between the billing authorities and each major preceptor to be recognised since the net cash paid to each major preceptor in the year will not be its share of cash collected from Council Taxpayers.

The Comprehensive Income and Expenditure Statement shows the share of cash collected in relation to Council Tax for the year. A transfer has been made to the collection fund adjustment account to record the amount due to/from the six districts (billing authorities) as at the year end. The debtors and creditors contained within the balance sheet now shows the share of Council Tax debtors (less an adjustment for bad and doubtful debts), Council Tax creditors, prepayments and a recognition of the amounts owed to or from the billing authorities.

25 Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Police and Crime Commissioner, analysed into 'Usable Reserves' (i.e. those that can be applied to fund expenditure or reduce taxation) and other 'Unusable reserves'. The Surplus (or Deficit) on the Provision of Services line shows the true economic cost of providing the Commissioner's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the Police Fund Balance for Council Tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory Police Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Police and Crime Commissioner.

	Police Fund £000s	Earmarked Reserves £000s	Capital Reserves £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Total Useable Reserves £000s	Total Unuseable Reserves £000s	Total Reserves £000s
Balance at 1 April 2012	**5,149**	**9,465**	**9,460**	**0**	**3,338**	**27,412**	**49,143**	**76,555**
Movement in Reserves during 2012-13								
Surplus or (Deficit) on the provision of services	(1,059)	0	0	0	0	**(1,059)**	0	(1,059)
Other Comprehensive Income and Expenditure	0	0	0	0	0	**0**	(820)	(820)
Total Comprehensive Income and Expenditure	**(1,059)**	**0**	**0**	**0**	**0**	**(1,059)**	**(820)**	**(1,879)**
Adjustments between accounting basis & funding basis under regulations (**Note 4**)	3,699	0	0	1,188	427	**5,314**	(5,314)	**0**
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**2,640**	**0**	**0**	**1,188**	**427**	**4,255**	**(6,134)**	**(1,879)**
Transfers to/(from) Earmarked Reserves (**Note 5**)	(2,640)	3,240	(600)	0	0	**0**	0	0
Increase/(Decrease) in 2012-13	**0**	**3,240**	**(600)**	**1,188**	**427**	**4,255**	**(6,134)**	**(1,879)**
Balance at 31 March 2013	**5,149**	**12,705**	**8,860**	**1,188**	**3,765**	**31,667**	**43,009**	**74,676**

The comparative figures for 2011-12 are shown in the table below:

	Police Fund £000s	Earmarked Reserves £000s	Capital Reserves £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Total Useable Reserves £000s	Total Unuseable Reserves £000s	Total Reserves £000s
Balance at 1 April 2011	**5,149**	**11,181**	**5,684**	**0**	**3,316**	**25,330**	**52,992**	**78,322**
Movement in Reserves during 2011-13								
Surplus or (Deficit) on the provision of services	(1,492)	0	0	0	0	**(1,492)**	0	(1,492)
Other Comprehensive Income and Expenditure	0	0	0	0	0	**0**	(275)	(275)
Total Comprehensive Income and Expenditure	**(1,492)**	**0**	**0**	**0**	**0**	**(1,492)**	**(275)**	**(1,767)**
Adjustments between accounting basis & funding basis under regulations (**Note 4**)	3,552	0	0	0	22	**3,574**	(3,574)	**0**
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**2,060**	**0**	**0**	**0**	**22**	**2,082**	**(3,849)**	**(1,767)**
Transfers to/(from) Earmarked Reserves (**Note 5**)	(2,060)	(1,716)	3,776	0	0	**0**	0	0
Increase/(Decrease) in 2011-12	**0**	**(1,716)**	**3,776**	**0**	**22**	**2,082**	**(3,849)**	**(1,767)**
Balance at 31 March 2012	**5,149**	**9,465**	**9,460**	**0**	**3,338**	**27,412**	**49,143**	**76,555**

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Commissioner raises taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost.

The taxation position is shown in the Movement in Reserves Statement (see page 34).

2011-12 Gross Expendture £000s	2011-12 Gross Income £000s	2011-12 Net Expendture £000s		2012-13 Gross Expendture £000s	2012-13 Gross Income £000s	2012-13 Net Expendture £000s
9,510	(12,372)	(2,862)	Local Policing	9,245	(10,277)	(1,032)
1,391	(1,812)	(421)	Dealing with the public	1,390	(97)	1,293
1,694	(2,203)	(509)	Criminal justice arrangements	1,742	(1,393)	349
1,421	(1,848)	(427)	Road policing	1,325	(2,903)	(1,578)
893	(1,162)	(269)	Specialist operations	783	(1,041)	(258)
1,364	(1,775)	(411)	Intelligence	1,373	(955)	418
2,475	(3,220)	(745)	Investigations	2,531	(907)	1,624
577	(751)	(174)	Investigative support	541	(123)	418
253	(329)	(76)	National policing	383	(5,668)	(5,285)
820	0	820	Corporate and democratic core	991	0	991
13	0	13	Non distributed costs	6	0	6
111,549	0	111,549	Funding Provided by PCC to CC	106,618	0	106,618
131,960	**(25,472)**	**106,488**	**Cost Of Services**	**126,928**	**(23,364)**	**103,564**
			Other Operating Expenditure			
16	0	16	(Gain)/loss on disposal of non current assets	0	(173)	(173)
10,304	(10,304)	0	Transfer to Pension Fund/Pension Top Up Grant	12,058	(12,058)	0
10,320	**(10,304)**	**16**		**12,058**	**(12,231)**	**(173)**
			Financing and Investment Income and Expenditure			
8	0	8	Interest payable on debt	2	0	2
1	0	1	Interest element of finance leases (lessee)	1	0	1
685	0	684	Interest payable on PFI unitary payments	677	0	677
150	0	150	Pensions interest costs	151	0	151
0	(125)	(125)	Expected return on pension assets	0	(121)	(121)
0	0	0	Investment property rental income	0	(7)	(7)
0	(244)	(244)	Investment interest income	0	(104)	(104)
844	**(369)**	**474**		**831**	**(232)**	**599**
			Taxation and Non-Specific Grant Income			
0	(1,139)	(1,139)	Recognised capital grants and contributions	0	(1,059)	(1,059)
0	(34,478)	(34,478)	Income from Council Tax	0	(35,782)	(35,782)
0	(27,596)	(27,596)	National Non Domestic Rates redistribution	0	(34,195)	(34,195)
0	(8,530)	(8,530)	Revenue Support Grant	0	(663)	(663)
0	(33,055)	(33,055)	Home Office Police Grant	0	(30,544)	(30,544)
0	(688)	(688)	PFI Grant	0	(688)	(688)
0	**(105,486)**	**(105,486)**		**0**	**(102,931)**	**(102,931)**
143,124	**(141,631)**	**1,492**	**(Surplus) or Deficit on Provision of Services**	**139,817**	**(138,758)**	**1,059**
			Surplus or Deficit on revaluation of Property, Plant and Equipment Assets			
		(83)	Revaluation gains			(4)
		335	Revaluation losses (chargeable to revaluation reserve)			607
		0	Impairment losses (chargeable to revaluation reserve)			0
		23	**Actuarial (gains) / losses on pension assets / liabilities**			217
		275	**Other Comprehensive Income and Expenditure**			**820**
		1,767	**Total Comprehensive Income and Expenditure**			**1,879**

Further explanations of the functions included within Cost of Services are provided at note 24a.

Income and Expenditure are also shown in the traditional subjective analysis format in note 24b.

Balance Sheet

The Balance Sheet shows the value as at the balance sheet date of the assets and liabilities recognised by the Police and Crime Commissioner. The net assets (assets less liabilities) are matched by the reserves held by the Police and Crime Commissioner. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Commissioner may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves relates to those that the Police and Crime Commissioner is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line' Adjustments between accounting basis and funding basis under regulations'.

31 March 2012 £000s			Notes	31 March 2013 £000s
		Property, Plant & Equipment	6	
56,176		Land and Buildings	6	51,203
2,274		Vehicles	6	2,289
6,285		Information Technology Equipment	6	5,332
584		Furniture, Equipment & Plant	6	525
339		Assets Under Construction (Land & Buildings)	6	120
0		Investment Properties	7	100
65,658				**59,569**
1,723		Intangible Assets - Software	9	1,261
67,381		**Long Term Assets**		**60,830**
9,584		Short Term Investments	11	7,603
181		Assets held for sale (within 1yr)	12	416
8,739		Short Term Debtors (external)	14	9,051
7,461		Short Term Debtors (amounts owed to PCC by CC) - CC Share of External Creditors	14	7,920
2,964		Debtors (Funding balance owed to PCC by CC)	14	2,960
4,618		Cash and Cash Equivalents	13	10,680
33,547		**Current Assets**		**38,630**
(10,738)		Short Term Creditors (external)	15	(10,189)
(2,804)		Short Term Creditors (amounts owed by PCC to CC) - CC Share of External Debtors	15	(2,760)
(4,585)		Creditors (Funding balance due from PCC to CC)	15	(5,428)
(67)		PFI Finance Lease Liability Due within 1 Year	11&19	(76)
(9)		Finance Lease Liability Due within 1 Year	20	(9)
(63)		PWLB Loan Due within 1 Year	11&17	0
(18,266)		**Current Liabilities**		**(18,462)**
0		Provisions	16	(45)
0		Long Term Borrowing	11&17	0
		Other Long Term Liabilities		
(712)		Pensions liability - LGPS	18	(968)
(5,382)		PFI Finance Lease Liability	11&19	(5,306)
(13)		Finance Lease Liability	20	(3)
(6,107)		**Long Term Liabilities**		**(6,322)**
76,555		**Net Assets**		**74,676**
		Usable reserves	21	
5,149		Police Fund	21	5,149
9,465		Earmarked reserves	5	12,705
9,460		Earmarked reserves (capital)	5	8,860
0		Capital Receipts Reserve	21	1,188
3,338		Capital Grants Unapplied	-	3,765
27,412				**31,667**
		Unusable Reserves	22	
7,755		Revaluation Reserve	22a	7,095
0		Pensions Reserve - Police	22e	0
(712)		Pensions Reserve - LGPS	22e	(968)
41,875		Capital Adjustment Account	22b	36,460
255		Collection Fund Adjustment Account	22c	447
(30)		Accumulated Absences Account	22d	(25)
49,143				**43,009**
76,555		**Total Reserves**		**74,676**

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Police and Crime Commissioner during the reporting period. The statement shows how the Police and Crime Commissioner generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Police and Crime Commissioner are funded by way of taxation and grant income or from the recipients of services provided by the Police and Crime Commissioner. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Police and Crime Commissioner's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Police and Crime Commissioner.

2011-12 £000s		Notes	2012-13 £000s
1,492	Net (Surplus) or Deficit on the provision of services		1,059
(4,227)	Adjustment to net surplus or deficit on the provision of services for non-cash movements		(8,330)
478	Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities		1,343
(2,257)	Net cash flows from Operating Activities		(5,928)
(225)	Investing Activities	23b	(274)
207	Financing Activities	23c	140
(2,275)	Net (increase) or decrease in cash and cash equivalents		(6,062)
(2,343)	Cash and cash equivalents at the beginning of the reporting period		(4,618)
(4,618)	**Cash and cash equivalents at the end of the reporting period**	13	**(10,680)**

Notes to the Accounts

1 Critical Judgements in Applying Accounting Policies

In applying the accounting policies as set out in pages 18 to 33 of this document, the Commissioner has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for policing. However, the Commissioner has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Commissioner might be impaired as a result of a need to close facilities and reduce levels of service provision.

- The Commissioner is deemed to control the services provided under the PFI agreement in relation to the West Cumbria TPA HQ at Workington. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement and the land and building (valued at £7.4m) are recognised as property, plant and equipment in the Commissioner's balance sheet.

2 Events after the Balance Sheet Date

A post balance sheet event is an event, subsequent to the date of the financial statements, and for which International Financial Reporting Standards and the code require adjustment or disclosure. The Statement of Accounts was authorised for issue by the Commissioner's Chief Finance Officer on 23 September 2013. Events taking place after this date are not reflected in the financial statements or notes. Consideration has been given to the implications in respect of the matters set out below with regards to the statement of accounts and the conclusions reached were that the accounts should be amended to reflect a non-adjusting post balance sheet event:

The decision of the Commissioner on 23rd August under 2003 and 2008 conduct regulations that there is a case to answer for misconduct in respect of the investigation and suspension of Temporary Chief Constable Stuart Hyde. The decision determined that the matter would not be referred to a misconduct hearing on the grounds of public interest and that management action would be taken. This concludes the process in respect of the Police Authority decision of 13th September, reported as a non-adjusting post balance sheet event in the 2011-12 financial statements, to suspend the Temporary Chief Constable and the investigation of allegations by South Wales Police.

The annual governance statement will be updated to reflect the development of a joint Constabulary/OPCC action plan to address points of governance raised in the investigation report into the conduct matters by South Wales Police. The recommendations within the report and a summary of the findings have been made public to aid transparency.

The decision of the Commissioner on 23rd August to suspend TCC Mr Hyde under section 38 (2) of the Police Reform and Social Responsibility Act 2011. Following that decision, and as of 30th August 2013, Mr Hyde's appointment as Temporary Chief Constable came to an end. As a consequence, and after that date, Mr Hyde reverted to Deputy Chief Constable at which point the Commissioner no longer had jurisdiction to consider the matter. The matter is further disclosed in the accounts of the Chief Constable.

A contingent liability has been included in the accounts to reflect a recent tribunal decision in relation to the payment of injury pensions, more detail can be found in note 33 on page 85.

3 Assumptions made about the future and other Sources of Estimation Uncertainty

The statement of Accounts contains estimated figures that are based on assumptions made by the Commissioner about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Commissioner's balance sheet as at 31 March 2013 for which there is significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Commissioner will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for buildings would increase by £26k for every year that useful lives had to be reduced.
Debtors	At 31 March 2013 the Commissioner had a balance of debtors invoices raised of £328k. A review of significant balances suggested that an impairment of doubtful debts of £2k was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £2k to set aside as an allowance.
Provisions	The Commissioner has made a provision of £45k arising from the scheme of arrangement put in place by MMI (the Commissioner's former insurer). The provision is based on an actuarial assessment of known liabilities. The actual liability will be dependent on the level at which current claims are settled and future claims arising.	Any increase or decrease in the actual liability will need to be met from the revenue budget. The Commissioner maintains an insurance reserve which will, in part be used to meet the liability.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Mercer Ltd) are engaged to provide the Commissioner with expert advice about the assumptions to be applied to the Local Government Pension Scheme.	The effects of the net pension liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption for LGPS for all police staff would result in a decrease in the pension liability of £2.3m, whilst a 0.5% reduction in the rate of return in excess of earnings for Police Pensions would result in an increase in the pension liability of £25m. The Commissioner's respective liability would be £75k and £813k. However, the assumptions interact in complex ways. During 2012-13, the Commissioner's actuaries advised that the Commissioner's share of the net pension liability had increased by £217k as a result of estimates being corrected.

4 Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Commissioner in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Commissioner to meet future capital and revenue expenditure.

The figures for 2012-13 are set out in the table below:

	Police Fund £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Total Usable Reserves £000s	Total Unusable Reserves £000s	Total Reserves £000s
Adjustments primarily involving the Capital Adjustment Account						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CI&ES)						
Charges for depreciation and impairment of non-current assets	4,692	0	0	**4,692**	(4,692)	**0**
Revaluation losses on Property, Plant & Equipment	2,993	0	0	**2,993**	(2,993)	**0**
Amortisation of intangible assets	703	0	0	**703**	(703)	**0**
Capital grants and contributions applied	(122)	0	0	**(122)**	122	**0**
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CI&ES	1,204	0	0	**1,204**	(1,204)	**0**
Insertion of items not debited or credited to the CI&ES						
Statutory provision for the financing of capital investment	(377)	0	0	**(377)**	377	**0**
Capital expenditure charged against the General Fund	(2,972)	0	0	**(2,972)**	2,972	**0**
Adjustments primarily involving the Capital Grants Unapplied Account						
Capital grants and contributions unapplied credited to the CI&ES	(937)	0	937	**0**	0	**0**
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	(510)	**(510)**	510	**0**
Adjustments primarily involving the Capital Receipts Reserve						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CI&ES	(1,343)	1,343	0	**0**	0	**0**
Use of the Capital Receipts Reserve to finance new capital expenditure	0	(139)	0	**(139)**	139	**0**
Contribution from the Capital Receipts Reserve towards administration costs of non current asset disposals	16	(16)	0	**0**	0	**0**
Adjustments primarily involving the Pensions Reserve						
Reversal of items relating to retirement benefits debited or credited to the CI&ES **(Note 18)**	136	0	0	**136**	(136)	**0**
Employer's pension contributions and direct payments to pensioners payable in the year	(97)	0	0	**(97)**	97	**0**
Adjustments primarily involving the Collection Fund Adjustment Account						
Amount by which council tax income credited to the CI&ES is different from council tax in the year in accordance with statutory requirements	(192)	0	0	**(192)**	192	**0**
Adjustments primarily involving the Accumulated Absences Account						
Amount by which officer remuneration charged to the CI&ES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(5)	0	0	**(5)**	5	**0**
Total Adjustments	**3,699**	**1,188**	**427**	**5,314**	**(5,314)**	**0**

The comparative figures for 2011-12 are set out in the below:

	Police Fund £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Total Usable Reserves £000s	Total Unusable Reserves £000s	Total Reserves £000s
Adjustments primarily involving the Capital Adjustment Account						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CI&ES)						
Charges for depreciation and impairment of non-current assets	4,586	0	0	**4,586**	(4,586)	**0**
Revaluation losses on Property, Plant & Equipment	1,427	0	0	**1,427**	(1,427)	**0**
Amortisation of intangible assets	722	0	0	**722**	(722)	**0**
Capital grants and contributions applied	(346)	0	0	**(346)**	346	**0**
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CI&ES	542	0	0	**542**	(542)	**0**
Insertion of items not debited or credited to the CI&ES						
Statutory provision for the financing of capital investment	(337)	0	0	**(337)**	337	**0**
Capital expenditure charged against the General Fund	(1,701)	0	0	**(1,701)**	1,701	**0**
Adjustments primarily involving the Capital Grants Unapplied Account						
Capital grants and contributions unapplied credited to the CI&ES	(793)	0	793	**0**	0	**0**
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	(771)	**(771)**	771	**0**
Adjustments primarily involving the Capital Receipts Reserve						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CI&ES	(478)	478	0	**0**	0	**0**
Use of the Capital Receipts Reserve to finance new capital expenditure	0	(471)	0	**(471)**	471	**0**
Contribution from the Capital Receipts Reserve towards administration costs of non current asset disposals	7	(7)	0	**0**	0	**0**
Adjustments primarily involving the Pensions Reserve						
Reversal of items relating to retirement benefits debited or credited to the CI&ES **(Note 18)**	140	0	0	**140**	(140)	**0**
Employer's pension contributions and direct payments to pensioners payable in the year	(108)	0	0	**(108)**	108	**0**
Adjustments primarily involving the Collection Fund Adjustment Account						
Amount by which council tax income credited to the CI&ES is different from council tax in the year in accordance with statutory requirements	(87)	0	0	**(87)**	87	**0**
Adjustments primarily involving the Accumulated Absences Account						
Amount by which officer remuneration charged to the CI&ES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(22)	0	0	**(22)**	22	**0**
Total Adjustments	**3,552**	**0**	**22**	**3,574**	**(3,574)**	**0**

5 Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the Police Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts credited to earmarked reserves to meet Police Fund expenditure in 2012-13 (and for 2011-12).

	Balance at 01-04-11 £000s	Transfers Out 2011-12 £000s	Transfers In 2011-12 £000s	Balance at 31-03-12 £000s	Reserves Combined 2012-13 £000s	Transfers Out 2012-13 £000s	Transfers In 2012-13 £000s	Balance at 31-03-13 £000s
Insurance	**788**	(242)	0	**546**	0	(103)	0	**443**
Management of Change	**3,079**	(1,452)	0	**1,627**	0	(1,117)	1,500	**2,010**
Operational Contingency	**150**	0	50	**200**	0	0	50	**250**
PFI Reserve	**1,080**	0	240	**1,320**	0	0	240	**1,560**
PFI Lifecycle Replacement 1	**245**	(151)	14	**108**	0	(11)	0	**97**
PFI Lifecycle Replacement 2	**0**	0	207	**207**	0	0	50	**257**
Police and Crime Commissioner	**150**	0	0	**150**	0	0	0	**150**
Police and Crime Commissioner Transition	**100**	(1)	109	**208**	0	(109)	120	**219**
Equalisation Reserve	**0**	0	1,422	**1,422**	(1,422)	0	0	**0**
Investment Fund	**0**	0	0	**0**	3,337	0	2,943	**6,280**
Support for 2011-12 Revenue Account	**2,357**	(2,357)	0	**0**	0	0	0	**0**
Airwave	**310**	(60)	0	**250**	(220)	(30)	0	**0**
Chief Constables Reserve	**289**	0	0	**289**	(289)	0	0	**0**
Future Pensions Liability	**153**	0	0	**153**	(153)	0	0	**0**
Health & Safety	**138**	0	0	**138**	(138)	0	0	**0**
Incentivisation Harmonisation	**31**	0	0	**31**	(31)	0	0	**0**
Mobile Data Project	**300**	0	0	**300**	0	(89)	0	**211**
Police National Database	**431**	(48)	0	**383**	(370)	0	0	**13**
Public Holiday	**139**	(75)	0	**64**	0	0	0	**64**
Risk Management Initiatives	**175**	0	0	**175**	(175)	0	0	**0**
Budget Holders Funds	**1,266**	(70)	698	**1,894**	(539)	(463)	259	**1,151**
Total Revenue Reserves	**11,181**	**(4,456)**	**2,740**	**9,465**	**0**	**(1,922)**	**5,162**	**12,705**
Capital Reserve	**5,684**	**0**	**3,776**	**9,460**	**0**	**(600)**	**0**	**8,860**

During 2012-13 a review of reserves was carried out and a number of smaller reserves were combined into a new reserve to be known as the "investment Fund". Revenue budget underspends from 2012-13 have been added to this reserve at the year end. This reserve will be used in 2013-14 (and future years) to invest in initiatives such as technology, equipment and training to meet the Commissioner's priorities and to increase the productivity of the Constabulary. A narrative description of the purpose of each of the earmarked reserves is provided below for information:

- Insurance – to offset any insurance claims not specifically detailed in the insurance provision.
- Management of Change – to help manage significant organisational change.
- Operational Contingency – to provide resources both to back up the annual operational contingency and, in addition, to assist in funding unexpected major events, if necessary.
- PFI Reserves – to equalise the impact on the Comprehensive Income and Expenditure Statement of changing levels of grant income and charges over the period of the contract
- Police and Crime Commissioner – to provide a dedicated reserve for the Commissioner's responsibilities.
- Police and Crime Commissioner Transition – to help manage the potential costs associated with the transition to Police Commissioners.
- Investment Fund – as outlined above.
- Mobile Data – to support the roll out in relation to the use, benefits and efficiencies offered by the use of mobile data.
- Police National Database - to offset the revenue costs associated with the implementation of the Police National Database system.
- Public Holiday - to smooth peaks in overtime expenditure due when bank holidays fall across financial years.
- Budget Holders Funds –to support a variety of locally managed initiatives arising from unspent balances in previous years, granted under the scheme of devolved resource management.
- Capital Reserve – direct contributions from revenue to support capital projects with in the capital programme.

6 Property, Plant and Equipment

The table below summarises the movements in Property, Plant and Equipment during the year:

	Land and Buildings £'000	Vehicles £'000	IT and Technology £'000	Furniture Equipment & Plant £'000	Assets Under Construction £'000	Total Property, Plant & Equipment £'000	PFI Assets Included in P.P.E. £'000
Cost or Valuation							
At 1 April 2012	57,354	7,810	20,278	2,805	339	**88,586**	7,576
Adjustment to Opening Balance	0	0	0	0	0	**0**	0
Additions	310	988	1,302	87	796	**3,483**	0
Enhancements	155	0	0	0	0	**155**	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(1,061)	0	0	0	0	**(1,061)**	0
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(2,237)	0	0	0	0	**(2,237)**	0
Derecognition - Disposals	0	(616)	0	0	0	**(616)**	0
Derecognition - Other	0	0	0	0	0	**0**	0
Assets reclassified (to)/from Held for Sale	(2,500)	0	0	0	0	**(2,500)**	0
Other movements in cost or valuation	1,015	0	0	0	(1,015)	**0**	0
At 31 March 2013	**53,036**	**8,182**	**21,580**	**2,892**	**120**	**85,810**	**7,576**
Accumulated Depreciation & Impairment							
At 1 April 2012	(1,178)	(5,536)	(13,993)	(2,221)	0	**(22,928)**	(242)
Adjustment to Opening Balance	0	0	0	0	0	**0**	0
Depreciation Charge	(1,318)	(973)	(2,255)	(146)	0	**(4,692)**	(163)
Depreciation on Disposals	0	616	0	0	0	**616**	0
Depreciation written out to the Revaluation Reserve	458	0	0	0	0	**458**	0
Depreciation written out to the Surplus/Deficit on the Provision of Services	132	0	0	0	0	**132**	0
Assets reclassified (to)/from Held for Sale	73	0	0	0	0	**73**	0
Depreciation as at 31 March 2013	**(1,833)**	**(5,893)**	**(16,248)**	**(2,367)**	**0**	**(26,341)**	**(405)**
Net Book Value							
At 31 March 2013	**51,203**	**2,289**	**5,332**	**525**	**120**	**59,469**	**7,171**
At 31 March 2012	**56,176**	**2,274**	**6,285**	**584**	**339**	**65,658**	**7,334**

The comparative figures for 2011-12 are set out in the below:

	Land and Buildings £'000	Vehicles £'000	IT and Technology £'000	Furniture Equipment & Plant £'000	Assets Under Construction £'000	Total Property, Plant & Equipment £'000	PFI Assets Included in P.P.E. £'000
Cost or Valuation							
At 1 April 2011	56,882	7,519	18,520	2,759	2,363	**88,043**	7,576
Adjustment to Opening Balance	(5)	0	0	0	0	**(5)**	0
Additions	0	853	1,874	46	142	**2,915**	0
Enhancements	83	0	0	0	1,070	**1,153**	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(332)	(481)	0	0	0	**(813)**	0
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(1,855)	0	0	0	0	**(1,855)**	0
Derecognition - Disposals	0	(81)	(116)	0	0	**(197)**	0
Derecognition - Other	0	0	0	0	0	**0**	0
Assets reclassified (to)/from Held for Sale	(655)	0	0	0	0	**(655)**	0
Other movements in cost or valuation	3,236	0	0	0	(3,236)	**0**	0
At 31 March 2012	**57,354**	**7,810**	**20,278**	**2,805**	**339**	**88,586**	**7,576**
Accumulated Depreciation & Impairment							
At 1 April 2011	(622)	(5,211)	(11,798)	(1,995)	0	**(19,626)**	(79)
Adjustment to Opening Balance	5	0	0	0	0	**5**	0
Depreciation Charge	(1,162)	(887)	(2,311)	(226)	0	**(4,586)**	(163)
Depreciation on Disposals	0	0	116	0	0	**116**	0
Depreciation written out to the Revaluation Reserve	0	562	0	0	0	**562**	0
Depreciation written out to the Surplus/Deficit on the Provision of Services	592	0	0	0	0	**592**	0
Assets reclassified (to)/from Held for Sale	9	0	0	0	0	**9**	0
Depreciation as at 31 March 2012	**(1,178)**	**(5,536)**	**(13,993)**	**(2,221)**	**0**	**(22,928)**	**(242)**
Net Book Value							
At 31 March 2012	**56,176**	**2,274**	**6,285**	**584**	**339**	**65,658**	**7,334**
At 31 March 2011	**56,260**	**2,308**	**6,722**	**764**	**2,363**	**68,417**	**7,497**

6.a Valuations Rolling Programme

The Commissioner carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. Valuations of land and buildings are carried out on behalf of the Commissioner by Mr. C. Smith Bsc MRICS of Carigiet Cowen and were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors (RICS). Valuations of vehicles, plant, furniture and equipment are based on depreciated historic cost as a proxy for fair value. The basis of the valuations is set out in the statement of accounting policies on page 26. The table below sets out details of the land and buildings valuations undertaken over the five year rolling programme.

	Land and Buildings £'000	Vehicles £'000	IT and Technology £'000	Furniture Equipment & Plant £'000	Assets Under Construction £'000	Total Property, Plant & Equipment £'000
Carried at Historical Cost	201	8,182	21,580	2,663	120	**32,746**
Valued at Fair Value as at:						
- 31 March 2013	8,050	0	0	0	0	**8,050**
- 31 March 2012	6,536	0	0	229	0	**6,765**
- 31 March 2011	37,687	0	0	0	0	**37,687**
- 31 March 2010	562	0	0	0	0	**562**
Total Cost or Valuation	**53,036**	**8,182**	**21,580**	**2,892**	**120**	**85,810**

6.b Impairment Review

The Authority's professional valuer, Mr. C. Smith of Carigiet Cowen, has made an assessment of the possible effects of material impairment to land and buildings during the financial year. His assessment was based on a number of specific criteria, which, in his opinion, could affect the valuation of assets. The outcome of the assessment process is that the valuer has concluded that there are no impairments.

6.c Property, Plant and Equipment in the Ownership of the Police and Crime Commissioner

A brief analysis of the Commissioner's principal assets as at 31 March 2013 is set out below:

	As at 31 March 2012 Number	2013 Number
HQ, TPA HQ & Larger Police Stations	8	9
Other Police Stations	18	13
Police Houses and other Properties	19	16
Surplus Properties Held for Sale	2	3
Vehicles	387	387
Total	**434**	**428**

6.d Gain / Loss on Sale of Property, Plant and Equipment

The table below analyses the (gain)/loss on sale of property, plant and equipment for the year ended 31 March 2013.

	Net Book Value £'000	Costs of Sale £'000	Proceeds of Sale £'000	(Gain) / Loss £'000
Land and Buildings	1,205	15	(1,323)	**(103)**
Vehicles	0	18	(88)	**(70)**
Total	**1,205**	**33**	**(1,411)**	**(173)**

The comparative figures for 2011-12 are set out in the below:

	Net Book Value £'000	Costs of Sale £'000	Proceeds of Sale £'000	(Gain) / Loss £'000
Land and Buildings	461	7	(460)	**8**
Vehicles	81	7	(80)	**8**
Total	**542**	**14**	**(540)**	**16**

Note in 2012-13 £68k (£62k in 2011-12) of receipts from proceeds of sale included in the above table were individually below the £10k threshold for recognition as capital receipts and have therefore been treated as revenue income. This explains why the capital receipts recorded in note 4 show £1,343k (£478k in 2011-12) rather than £1,411k (£540k in 2011-12) as above.

6.e Effects of Changes in Estimates

There have been no material changes in estimates in the 2012-13 accounts.

7 Investment Properties

An investment property is generally one which is held solely to earn rentals or for capital appreciation or both, rather than for: use in the production or supply of goods and services or for administration purposes or, sale in the ordinary course of operations. The Commissioner will generally seek to dispose of surplus premises when they cease to be used for operational purposes. However, there are strict criteria that govern what premises can be included in the balance sheet as Property, Plant and Equipment and what can be classified as "held for sale". Where a premises has been identified as surplus and does not meet the definition to be classified as held for sale it is categorised as an investment property.

The following table summarises the movement in the fair value of investment properties over the year.

	As at 31 March	
	2012 £'000	2013 £'000
Balance at Start of the Year	0	0
Transfers (to)/from Held for Sale	0	118
Revaluation Gains/(Losses)	0	(18)
Balance at end of the year	**0**	**100**

The following items of income and expense have been accounted for in the Financing and Investment Income line of the Comprehensive Income and Expenditure Statement.

	2011-12 £'000	2012-13 £'000
Rental Income from Investment Property	0	(7)
Direct Operating Expenses arising from investment property	0	0
Net gain/(loss)	**0**	**(7)**

8 Capital Commitments

The Commissioner has outstanding contractual commitments amounting to £235k in respect of a number of schemes from the 2012-13 capital programme (£744k in 2011-12). The budget outturn report for 2012-13 was presented to the Commissioner's Executive Board on 4 June 2013.

The outstanding capital commitments are analysed below by scheme:

Outstanding Capital Commitments	As at 31 March 2012 £'000	As at 31 March 2013 £'000
STORM (Command & Control System)	26	26
Allerdale Rural Deployment Centre	671	0
Finance and Business Systems Upgrade Project	47	0
Integrated Command and Control System	0	195
Vehicle Replacement	0	14
Total	**744**	**235**

9 Intangible Assets

The Commissioner accounts for its computer software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item within Property, Plant and Equipment. The intangible assets include computer software development and acquisitions. All software is given a finite useful life (5 years), based on assessments of the period that the software is expected to be of use to the Commissioner. The carrying amount of intangible assets is amortised on a straight line basis and is charged to the Comprehensive Income and Expenditure Statement.

A summary of the movements in intangible assets during the year and the position as at 31 March 2013 (with comparatives for 2011-12) is set out in the table below:

	2011-12 £'000	2012-13 £'000
Balance at start of year		
- Gross carrying amount	4,666	4,756
- Accumulated amortisation	(2,315)	(3,033)
Net carrying amount at start of year	**2,351**	**1,723**
Additions	94	241
Disposals	(4)	0
Amortisations for the period	(722)	(703)
Amortisation adjustment re disposals	4	0
Net carrying amount at end of year	**1,723**	**1,261**
Comprising		
- Gross carrying amount	4,756	4,997
- Accumulated amortisation	(3,033)	(3,736)
	1,723	**1,261**

The amortisation of £703k charged to revenue in 2012-13 was initially charged to the IT Services department and then allocated across the services on a head count basis. The table below shows the amount of intangible asset amortisation attributable to each service heading:

	2011-12 £'000	2012-13 £'000
Local Policing	359	317
Dealing with the Public	81	76
Criminal Justice Arrangements	86	79
Road Policing	54	46
Specialist Operations	26	22
Intelligence	47	48
Specialist Investigations	44	89
Investigative Support	17	18
National Policing	8	8
	722	**703**

10 Heritage Assets

The code requires Heritage Assets, which are maintained principally for their contribution to knowledge or culture, to be separately disclosed.

The Commissioner holds a small number of historical ephemera relating to policing in Cumbria which would fall under the definition of heritage assets including: a ceremonial chair, four antique firearms, several trophies, a commemorative plaque, two ceremonial swords and four portraits.

In the opinion of the Commissioner the assets do not have a material intrinsic value in the context of the Commissioner's accounts. Due to their historical origin no cost of valuation information is available and because of their diverse nature specialist valuations would be required to obtain a reliable estimate of their value. The Commissioner is of the opinion that the costs of obtaining the valuations for these items would be disproportionate in terms of the benefits gained and therefore no values are included in the Commissioner's balance sheet.

11 Financial Instruments

11.a Categories of Financial Instrument

The following categories of financial instrument are carried in the balance sheet.

	Long Term		Current	
	31 March 2012 £'000	31 March 2013 £'000	31 March 2012 £'000	31 March 2013 £'000
Financial Assets				
Investments				
Loans and receivables	0	0	9,584	7,603
Debtors				
Financial assets carried at contract amounts	0	0	3,932	4,467
Total Financial Assets	**0**	**0**	**13,516**	**12,070**
Financial Liabilities				
Borrowings				
Financial liabilities at amortised cost	0	0	(63)	0
Creditors				
Financial liabilities carried at contract amounts	0	0	(1,805)	(1,264)
Other Long-term Liability (PFI/Finance Lease)				
PFI & Finance Lease Liabilities	(5,395)	(5,309)	(76)	(85)
Total Financial Liabilities	**(5,395)**	**(5,309)**	**(1,944)**	**(1,349)**

11.b Gains and Losses on Financial Instruments

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in 2012-13 relating to financial instruments are made up as follows:

	2011-12				2012-13			
	Financial Liabilities Held at amorised cost	Financial Liabilities PFI/Finance Lease	Financial Assets Loans & Receivables	Total	Financial Liabilities Held at amorised cost	Financial Liabilities PFI/Finance Lease	Financial Assets Loans & Receivables	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Interest Expense	8	686	0	**694**	2	678	0	**680**
Impairment Losses (Bad Debts Provision Increase)	0	0	0	**0**	0	0	0	**0**
Total Expenses in (Surplus) or Deficit on the Provision of Services	**8**	**686**	**0**	**694**	**2**	**678**	**0**	**680**
Interest Income	0	0	(244)	**(244)**	0	0	(104)	**(104)**
Impairment Gain (Bad Debts Provision Reduction)	0	0	0	**0**	(1)	0	0	**(1)**
Total Income in (Surplus) or Deficit on the Provision of Services	**0**	**0**	**(244)**	**(244)**	**(1)**	**0**	**(104)**	**(105)**
Net (Gain)/Loss for the Year	**8**	**686**	**(244)**	**450**	**1**	**678**	**(104)**	**575**

11.c Fair value of Assets and Liabilities Carried at Amortised Cost

Financial liabilities and assets represented by loans and receivables and long term debtors and creditors are carried in the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Estimated interest rates at 31 March 2013 of 5% for loans from the PWLB.
- No early repayment or impairment is recognised
- Where an instrument will mature in the next 12 months, carrying amount is assumed to be approximate to fair value
- The fair value of trade and other receivables is taken to be the invoiced amount.

The fair values calculated are as follows:

	31 March 2012		31 March 2013	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Financial Liabilities				
Borrowings	(63)	(64)	0	0
Creditors	(1,805)	(1,805)	(1,264)	(1,264)
Other Long-term Liabilities (PFI/Finance Lease)	(5,471)	(5,471)	(5,394)	(5,394)
	(7,339)	**(7,340)**	**(6,658)**	**(6,658)**
Financial Assets				
Investments	9,584	9,584	7,603	7,603
Debtors	3,932	3,932	4,467	4,467
	13,516	**13,516**	**12,070**	**12,070**

For financial assets the fair value is shown to be the same as the carrying amount as the investments are for a short period and there is no option to vary the amount or timing of repayment.

11.d Disclosure of the Nature and Extent of Risks Arising from Financial Instruments

The Commissioner's activities expose it to a variety of financial risks:

- Credit Risk – the possibility that other parties might fail to pay amounts due to the Commissioner.
- Liquidity Risk – the possibility that the Commissioner might not have funds available to meet its commitments to make payments.
- Market risk – the possibility that financial loss might arise for the Commissioner as a result of changes in such measures as interest rates and stock market movements.

The Commissioner's annual Treasury Management Strategy focuses on these risks and seeks to minimise potential adverse effects on the resources available to fund services. The Commissioner provides written policies within its Treasury Management Strategy covering interest rate risk, credit risk and the investment of surplus cash balances. A copy of the current Treasury Management Strategy Statement can be found on the Police and Crime Commissioner's website at: http://www.cumbria-pcc.gov.uk/media/9110/PCC%2022-02-13%20Treasury%20Management%20Strategy%20Statement.pdf

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Commissioner's customers.

This risk is minimised through the application of policies set out in the annual Treasury Management Strategy Statement (TMSS), which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by Fitch and Moody's ratings services. The annual TMSS (approved by the Commissioner in February 2012), also imposes a maximum sum to be invested with a financial institution located within each category.

The credit criteria as set out in the 2012-13 TMSS in respect of financial assets held by the Commissioner are detailed below:

Financial Asset Category	Minimum Criteria	Maximum Investment
Deposits with major UK and non UK Banks and Building Societies	Short Term: F1/P1 Long Term: A+/A1 Support: 3	The lower of £5m (per institution or group) or 15% of the portfolio at the time the investment is placed.
Deposits with Money Market Funds	Long Term: AAA	£2m per fund (or 10% of portfolio). Maximum of all deposits £15m.
Deposits with Other Local Authorities	Not credit rated but are legally required to set a balanced budget.	£2m per authority. Maximum of all deposits £6m.
Deposits with Debt Management Agency Deposit Facility	Not credit rated but deposits have the best possible credit through the HM Government guarantee	No limit.

In February 2013, the annual update to the TMSS was agreed by the Commissioner. At which point, the minimum investment criteria outlined in the table above was reduced from institutions with a minimum credit rating of A+ to A-. The change was largely as a result of improved stability in economic conditions and the fact that most banks have had their credit ratings downgraded which meant that they otherwise would have fallen below the Commissioner's minimum investment criteria. The agreed revised strategy for 2013-14 was implemented with immediate effect for the remainder of 2012-13.

The Commissioner's maximum exposure to credit risk in relation to its investments in banks, building societies and other Local Authority's of £8m at the balance sheet date cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Commissioner's deposits, but there was no evidence at the 31 March 2013 that this was likely to happen.

The following analysis summarises the Commissioner's potential maximum exposure to credit risk, on other financial assets, based on experience of default and uncollectability over the last five financial years, adjusted to reflect current market conditions.

	Amount at 31.03.13 £'000	Historical Experience of Default %	Historical Experience Adjusted for Market Conditions at 31.03.13	Estimated maximum exposure to default and uncollectability £'000	Comparative Estimated maximum exposure at 31.03.12 £'000
Customers - Operational Debtors	1,363	0.04%	0.15%	2	2

The Commissioner does not generally allow credit for customers. At the 31 March 2013, £74k of the £1,363k balance of operational debt was past the due date for payment, however, the Commissioner has no reason to believe that these sums will not ultimately be collected and has therefore left the bad debt provision as at 31 March 2013 largely unchanged. The past due amount can be analysed by age as follows:

	As at 31 March 2012 £'000	2013 £'000
Total Operational Debtors	**1,562**	**1,363**
Aged Debt past its due date		
31 to 60 Days	40	44
61 to 90 Days	14	5
91 to 120 Days	4	3
121 Days Plus	10	22
	68	**74**

Liquidity Risk

As the Commissioner has ready access to borrowings from the PWLB and had at 31 March 2013 no actual external debt as it has financed a number of recent projects through internal borrowing, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. A more pertinent risk is that the Commissioner will be required to replenish a significant proportion of its internal borrowings at a time of unfavourable interest rates. At the balance sheet date the Commissioner is confident that it has adequate working capital principally as a result of its significant reserves to mitigate this risk. Nevertheless, prevailing money market rates are regularly monitored with a view to ensuring that long term debt financing decisions are made at the optimum time.

The maturity analysis of loans and borrowings within financial liabilities is as follows:

Analysis of PWLB Loan by Maturity	As at 31 March 2012 £'000	As at 31 March 2012 %	As at 31 March 2013 £'000	As at 31 March 2013 %
Repayable In One Year	63	100%	0	0%
Between One and Two Years	0	0%	0	0%
Between Two and Five Years	0	0%	0	0%
Between Five and Ten Years	0	0%	0	0%
	63	**100%**	**0**	**0%**

All operational liabilities are due to be repaid within one year.

Market Risk

The Commissioner is exposed to some risk due to movements in interest rates on its loans and investments. These potential risks are:

- An increase in interest rates will result in a fall in the fair value of borrowings and investments.
- A decrease in interest rates will result in a rise in the fair value of borrowings and investments.
- The value of interest received from investments will rise or fall depending on increases and decreases in interest rates and will impact on the Comprehensive Income and Expenditure Statement.

As all of the Commissioner's existing borrowings and investments have been placed at fixed rates, this risk has to a large extent been minimised.

Borrowings and investments are carried in the Balance Sheet at fair value, so nominal gains and losses on fixed rate financial instruments have no impact on the Comprehensive Income and Expenditure Statement.

The Commissioner carries out its borrowing and investment function within parameters set out in its Treasury Management Strategy, which assesses interest rate exposure to feed into the budget process. Forecasts are updated regularly throughout the year, which allows any significant changes to interest rates to be reflected in current budget projections.

The Treasury Management Strategy also advises on the limits for new variable and fixed–rate borrowing for the year. No new external borrowing was undertaken in 2012-13.

12 Assets Held for Sale

Assets held for sale relate to land and buildings assets that are available for immediate sale in their present condition subject to terms that are usual and customary for sales of such assets. The assets are being actively marketed for a sale at a price that is reasonable in relation to its current fair value. The sale is expected to qualify for recognition as a completed sale within one year from the date of classification.

	As at 31 March 2012 £'000	2013 £'000
Balance outstanding at start of year	160	181
Newly classified as held for sale	646	2,427
Revaluation gains/(losses)	(176)	(942)
Reversal of Impairment losses	12	72
Assets sold	(461)	(1,204)
De-classified as held for sale	**0**	(118)
Balance outstanding at end of year	**181**	**416**

13 Cash and Cash Equivalents

The balance of cash and cash equivalents is made up of the following elements:

	As at 31 March 2012 £'000	2013 £'000
Bank current accounts	99	21
Short-term deposit with bank (overnight)	119	2,555
Investments in Money Market Funds (available on demand)	4,400	8,104
Total	**4,618**	**10,680**

14 Debtors

A breakdown of the amounts owing to the Commissioner as at 31 March 2013 is set out in the table below:

	As at 31 March 2012 Re-stated £'000	2013 £'000
Central Government Bodies	3,637	4,302
Other Police / Local Authorities	384	532
NHS Bodies	55	69
Public Corporations & Trading Funds	0	4
Other Entities and Individuals (*)	5,529	5,007
Impairment (Provision for Bad Debts)	(866)	(863)
Total External Debtors	**8,739**	**9,051**
Balance Owed from CC re CC Share of External Creditors	7,461	7,920
Balance Owed from CC re balance of Funding	2,964	2,960
Total Debtors	**19,164**	**19,931**

* The amounts in respect of other entities and individuals are analysed further in the table below for information.

	As at 31 March 2012 Re-stated £'000	2013 £'000
*** Analysis of Other Entities and Individuals**		
Police Pensioners Prepayment	1,807	1,906
Goods and Services	586	418
Prepayments/Payments In Advance	1,296	877
Employees (accumulating compensating absences)	133	103
Local Taxpayers	1,707	1,703
	5,529	**5,007**
Less - Provision for Bad Debts (Goods & Services)	(2)	(2)
Less - Provision for Bad Debts (Local Taxpayers)	(864)	(861)
	(866)	**(863)**
Other Entities and Individuals (Net of Impairment)	**4,663**	**4,144**

15 Short-term Creditors

An analysis of the amounts owed by the Commissioner as at 31 March 2013 is set out in the table below:

	As at 31 March 2012 Re-stated £'000	2013 £'000
Central Government Bodies	(2,037)	(1,913)
Other Police / Local Authorities	(604)	(897)
NHS Bodies	(1)	(3)
Public Corporations & Trading Funds	(33)	0
Other Entities and Individuals (*)	(8,063)	(7,376)
Total External Creditors	**(10,738)**	**(10,189)**
Balance Owed to CC re CC Share of External & Employee Debtors	(2,804)	(2,760)
Balance Owed to CC re balance of Funding	(4,585)	(5,428)
Total Creditors	**(18,127)**	**(18,377)**

* The amounts in respect of other entities and individuals are analysed further in the table below for information.

	As at 31 March 2012 Re-stated £'000	2013 £'000
*** Analysis of Other Entities and Individuals**		
Goods and Services	(2,907)	(2,731)
Receipts In Advance	(678)	(267)
Employees (accumulating compensating absences)	(3,874)	(3,773)
Local Taxpayers	(604)	(605)
Other Entities and Individuals	**(8,063)**	**(7,376)**

16 Provisions

The Commissioner is able to maintain provisions to meet expected future liabilities. The Code of Practice on Local Authority Accounting advises that the value of any provisions be charged to the appropriate part of the Comprehensive Income and Expenditure Statement in anticipation of the liability having to be met in the future. The classification of provisions is consistent with the Code of Practice.

A brief description of the purpose of the individual provision as at 31 March 2013 is provided below:

MMI Insurance Claims – this provision has been established to meet the potential costs arising from the scheme of arrangement put in place by the Commissioner's former insurer Municipal Mutual Insurance Ltd (see note 33 contingent liabilities for further details).

The table below shows the movements during the year on provisions and the position as at 31 March 2013.

Provisions	Balance as at 01-04-12 £'000	Provisions Made 2012-13 £'000	Amounts Used in 2012-13 £'000	Balance as at 31-03-13 £'000
MMI Insurance Claims	0	(45)	0	**(45)**
Total Provisions	**0**	**(45)**	**0**	**(45)**

17 Long-term Borrowing

During 2012-13 the Commissioner repaid all outstanding debt with the Public Works Loans Board (PWLB).

Analysis of Loan by Maturity	As at 31 March 2012 £'000	2013 £'000
Repayable In One Year	(63)	0
Between One and Two Years	0	0
Between Two and Five Years	0	0
Between Five and Ten Years	0	0
	(63)	**0**
Transferred to Current Liabilities	63	0
	0	**0**

18 Pensions

18.a Pension Schemes

As part of the terms and conditions of employment of its other employees, the Commissioner offers retirement benefits. Although these benefits will not actually be payable until employees retire, under IAS 19 the Commissioner must recognise its future commitment to make payments, which need to be disclosed at the time that employees earn their future entitlement. In addition, the financial statements should contain adequate disclosure of the costs of providing benefits and related gains/losses.

The Commissioner participates in the Local Government Pension Scheme (LGPS) for Police Staff employees, administered by Cumbria County Council (outsourced to Lancashire County Council) – this is a funded defined benefit scheme, meaning that the Commissioner and employees pay contributions into a fund. Contributions are calculated at a level intended to balance the pensions liabilities with investment assets over the long term. In 2012-13 the Commissioner made a contribution of 11.1% of pensionable pay supplemented by a contribution to past service costs of £259k. The contribution rate was last reviewed in March 2010 with revised rates applicable from April 2011.

The cost of retirement benefits is recognised in the Cost of Services within the Comprehensive Income and Expenditure Statement when employees earn them, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against Council Tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Police Fund in the Movement in Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement during the year:

	LGPS Funded Benefits		LGPS Unfunded Benefits	
	2011-12 £'000	2012-13 £'000	2011-12 £'000	2012-13 £'000
Comprehensive Income and Expenditure Statement				
Cost of Services				
Current service cost	103	100	0	0
Past service costs (general)	0	0	0	0
Settlements and Curtailments	13	6	0	0
Past service costs (indexation change RPI to CPI, reported as exceptional item on CIES page 36, see note 40)	0	0	0	0
Financing and Investment Income and Expenditure				
Interest cost	148	149	2	2
Expected return on scheme assets	(126)	(121)	0	0
Total Post Employement Benefit Charged to the Surplus or Deficit on the Provision of Services	**138**	**134**	**2**	**2**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement				
Actuarial (gains) and losses	**23**	**217**	**0**	**0**
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**161**	**351**	**2**	**2**
Movement in Reserves Statement				
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code.	(138)	(134)	(2)	(2)
Actual amount charged against the Police Fund Balance for pensions in the year				
Employers' contributions payable to the scheme	106	95	2	2
Retirements benefits payable to pensioners	0		0	
Total amount charged against the Police Fund Balance for pensions in the year	**106**	**95**	**2**	**2**

18.b Assets and Liabilities in relation to Retirement Benefits

Under IAS 19, the financial statements should reflect at fair value the assets and liabilities arising from an employer's obligation to pay retirement benefits and the funding provided.

The underlying assets and liabilities for retirement benefits attributable to the Commissioner at 31 March 2013 are as follows:-

	LGPS Funded Benefits		LGPS Unfunded Benefits	
	2011-12 £'000	2012-13 £'000	2011-12 £'000	2012-13 £'000
Estimated Liabilities in Scheme	(2,895)	(3,519)	(34)	(36)
Estimated Assets in scheme	2,217	2,587	0	0
Pension Liability	**(678)**	**(932)**	**(34)**	**(36)**

The liabilities in the above table show the underlying commitments that the Commissioner has, in the long run, to pay retirement benefits.

However, statutory arrangements for funding the deficit mean that the Commissioner's financial position remains healthy, since:

- the deficit on the local government scheme will be made good by increased contributions and changes to benefits over the remaining working life of employees, as assessed by the scheme actuary

Reconciliation of present value of scheme liabilities:

	LGPS Funded Benefits		LGPS Unfunded Benefits	
	2011-12 £'000	2012-13 £'000	2011-12 £'000	2012-13 £'000
Balance at Start of Year	**(2,644)**	**(2,895)**	**(34)**	**(34)**
Current Service Cost	(103)	(100)	0	0
Interest Cost	(148)	(149)	(2)	(2)
Contributions by Scheme Participants	(42)	(38)	0	0
Actuarial Gains and (Losses)	0	(398)	0	(2)
Benefits / Transfers Paid	55	67	2	2
Past Service (normal)	0	0	0	0
Curtailments and Settlements	(13)	(6)	0	0
Balance at End of Year	**(2,895)**	**(3,519)**	**(34)**	**(36)**

The liabilities under the LGPS scheme has increased during 2012-13. The principal reason for this increase is in relation to actuarial gains and losses.

Reconciliation of fair value of the scheme assets:

	LGPS Funded Benefits		LGPS Unfunded Benefits	
	2011-12 £'000	2012-13 £'000	2011-12 £'000	2012-13 £'000
Balance at Start of Year	**2,021**	**2,217**	**0**	**0**
Expected Rate of Return	126	121	0	0
Actuarial Gains and (Losses)	(23)	183	0	0
Employer Contributions	106	95	2	2
Contributions by Scheme Participants	42	38	0	0
Benefits Paid	(55)	(67)	(2)	(2)
Balance at End of Year	**2,217**	**2,587**	**0**	**0**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long term real rates of return experienced in the respective markets.

The actual return on the Commissioner's share of scheme assets in the year was a gain of £304k which compares with a gain in 2011-12 of £103k.

Scheme History

	Restated 2008-09 £'000	Restated 2009-10 £'000	2010-11 £'000	2011-12 £'000	2012-13 £'000
Present Value of Scheme Liabilities					
Local Government Pension Scheme	(1,767)	0	0	0	0
- Funded	0	(2,822)	(2,644)	(2,895)	(3,519)
- Unfunded		(42)	(34)	(34)	(36)
	(1,767)	**(2,864)**	**(2,678)**	**(2,929)**	(3,555)
Fair Value of Assets in the LGPS	1,262	1,770	2,021	2,217	2,587
Surplus / (Deficit) in the Scheme					
Local Government Pension Scheme	**(505)**	**(1,094)**	**(657)**	**(712)**	**(968)**

The total contributions expected to be made to the Local Government Pension Scheme by the Commissioner in the year to 31 March 2014 are £91k.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, which provides an estimate of the pensions that will be payable in future years using assumptions about mortality rates, salary levels, etc. William M Mercer, an independent firm of actuaries, has carried out the assessment on the Local Government Pension Scheme. These accounts are based on the actuarial valuation undertaken on 31 March 2010.

The principal assumptions used by the actuary have been:-

	LGPS	
	2011-12	2012-13
Long-term Expected Rate of return on Assets in the Scheme:		
- Equity Investments	7.00%	7.00%
- Government Bonds	3.10%	2.80%
- Other Bonds	4.10%	3.90%
- Property	6.00%	5.70%
- Cash / Liquidity	0.50%	0.50%
- Other	7.00%	7.00%
Mortality Assumptions:		
Longevity at 65 for current pensioners:		
- Men	21.8	22.2
- Women	24.5	24.9
Longevity at 65 for future pensioners:		
- Men	23.2	24.1
- Women	26.0	26.9
Rate of Inflation (CPI)	2.60%	2.40%
Rate of increase in salaries	4.35%	4.15%
Rate of increase in pensions	2.60%	2.40%
Rate for discounting scheme liabilities	5.10%	4.40%
Take-up of option to convert annual pension into retirement lump sum	50%	50%

The Commissioner's share of assets in the Cumbria County Council Pension Fund (LGPS) consists of the following categories, by proportion of the total assets held:

	2011-12		2012-13	
LGPS Asset Breakdown	£'000	%	£'000	%
Equities	1,144	51.60%	1,433	55.40%
Government Bonds	355	16.01%	411	15.90%
Other Bonds	355	16.01%	409	15.80%
Property	142	6.41%	145	5.60%
Cash / Liquidity	35	1.58%	16	0.60%
Other	186	8.39%	173	6.70%
	2,217	**100.00%**	**2,587**	**100.00%**

The actuarial gains and losses identified as movements on the Pensions Reserve in 2012-13 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities as 31 March 2013.

	2008-09		2009-10		2010-11		2011-12		2012-13	
	£'000	%	£'000	%	£'000	%	£'000	%	£'000	%
LGPS										
Difference between actual and expected returns on assets	(364)	-29%	292	17%	30	2%	(23)	1%	183	7%
Difference between actual and expected returns on liabilities	589	33%	(860)	-33%	307	-12%	0	0%	(400)	11%
Change in actuarial assumptions	0	0%	0	0%	0	0%	0	0%	0	0%
Total Gain/(Loss)	**225**		**(568)**		**337**		**(23)**		**(217)**	

19 Private Finance Initiative (PFI)

The former Police Authority entered an agreement for the construction and subsequent servicing of a TPA Headquarters facility in West Cumbria in September 2001 under a PFI arrangement. Under the agreement the PFI provider constructed the facility, and undertakes to make the building available to the Commissioner in a specified condition for a 25 year period in return for a monthly unitary charge payment made by the Commissioner. In addition the provider delivers a range of services in relation to the building which are specified in the PFI contract. At the end of the contract period the Commissioner has the right to acquire the building at 50% of its market value.

Prior to 2009-10 the monthly unitary charge payment was treated as revenue expenditure and appeared within the service expenditure element of the Comprehensive Income and Expenditure Statement. From 2009-10 in accordance with changes introduced by SORP 2009, the accounting treatment changed significantly. The PFI asset is now recognised on the Commissioner's balance sheet along with a corresponding PFI finance lease liability which recognises the Commissioner's outstanding liability to pay for the asset. The PFI asset is depreciated and revalued in the same way as any other asset in accordance with accounting policies. The unitary charge payment is now split into three components in the accounts as follows:

- Service Charges – these continue to be charged to the service expenditure element.
- Interest Payments – these are charged to the external interest payable heading on the Comprehensive Income and Expenditure Statement.
- Repayment of Principal – this charge reduces the outstanding balance sheet liability for the asset. However, a corresponding increase in the minimum revenue provision is made in accordance with the Commissioner's minimum revenue provision policy.

In accordance with the new accounting rules, lifecycle replacement costs are now recognised when they are actually incurred. The Commissioner receives specific government funding from DCLG as a contribution to the costs of financing the scheme.

The following information is disclosed in relation to the PFI asset.

Notes to the Accounts

19.a Movement on Fixed Assets

The value and movement in value of the asset held under the PFI agreement is analysed in note 6 above.

19.b PFI Finance Lease Liability

The value of Liabilities resulting from the PFI Agreement are shown in the table below:

	As at 31 March 2012 £'000	2013 £'000
Balance at the start of the year	(5,509)	(5,449)
Repayments made during year	60	67
Balance at the end of the year	**(5,449)**	**(5,382)**
Split of liability		
Current Liability	(67)	(76)
Long Term Liability	(5,382)	(5,306)
	(5,449)	**(5,382)**

19.c Payments Due to be made under PFI Contract

An estimate of the future payments to be made under the PFI contract are shown in the table below. Where applicable an estimated inflation index of 2% (linked to the GDP deflator) per annum has been applied to the payments.

	Repayment of Liability £'000	Interest Payments £'000	Service Costs £'000	Total £'000
Repayable within one year	76	668	533	**1,277**
Between two and five years	420	2,556	2,332	**5,308**
Between six and ten years	922	2,798	3,348	**7,068**
Between eleven and fifteen years	1,054	1,488	2,590	**5,132**
	2,472	**7,510**	**8,803**	**18,785**

20 Leases

20.a Finance leases

The Commissioner has acquired a photocopier/printer under a finance lease. The asset acquired under this lease is carried on the balance sheet as Equipment at the following net amounts:

	As at 31 March 2012 £'000	2013 £'000
Equipment		
- Printer/Photocopier	28	19

The Commissioner is committed to making minimum payments under the leases comprising settlement of the long-term liability for the interest in the asset acquired by the Commissioner and finance costs that will be payable by the Commissioner in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	As at 31 March 2012 £'000	2013 £'000
Finance lease Liabilities (NPV of Minimum lease payments)		
- Current	(9)	(9)
- Non-current	(13)	(3)
	(22)	**(12)**
Finance costs payable in future years	(3)	(2)
Minimum lease payments	**(25)**	**(14)**

Finance lease liabilities due within one year are shown on the balance sheet as creditors.
The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments As at 31 March 2012 £'000	2013 £'000	Finance lease Liabilities As at 31 March 2012 £'000	2013 £'000
Within one year	11	11	9	9
Between two and five years	14	3	13	3
Total	**25**	**14**	**22**	**12**

20.b Operating leases

The Commissioner utilises land and buildings and equipment assets under operating leases. The land and buildings are typically short to medium term rentals of buildings. The equipment includes livescan fingerprint machines and photocopiers.

The future minimum lease payments due under non-cancellable leases in future years are:

	As at 31 March 2012 £'000	2013 £'000
Not later than one year	216	113
Later than one year and not later than five years	222	181
Later than five years.	3,439	3,409
	3,877	**3,703**

The expenditure charged to the Net Cost of Services in relation to these leases was:

	2011-12 £'000	2012-13 £'000
Minimum Lease Payments		
- Land and Buildings	138	177
- Equipment	83	72
	221	**249**

21 Usable Reserves

In addition to the Commissioner's Police Fund, which the Commissioner aims to maintain at 5% of budgeted expenditure, the following reserves are maintained and accounted for in line with the Code of practice.

- Capital Receipts Reserve – this reserve is used to hold capital receipts until they are utilised to finance capital expenditure or reduce borrowing.
- Capital Grants Unapplied Account – this reserve is used to hold capital grants until they are utilised to finance capital expenditure.
- Capital Reserve – this reserve is a revenue backed earmarked reserve that has been set aside to fund capital expenditure.
- Earmarked Reserves - The Commissioner has a number of established earmarked reserves and has created additional reserves at the end of 2012-13. Earmarked reserves exist both to provide a contingency to cushion the effect of unexpected events and to provide a mechanism to build up funds to meet expected liabilities. The Commissioner's earmarked reserves have been formulated in conjunction with the CIPFA guidance on Reserves and Provisions. Details of the earmarked reserves in existence and a brief description as to their purpose is included in note 5 to the accounts (see page 42).

  The movement in the Commissioner's Usable Reserves is detailed in the Movement in Reserves Statement (see page 34), and the disclosure notes relating to Adjustments between the Accounting Basis and Funding Basis under regulations (Note 4) and Transfer to/from Earmarked reserves (Note 5).

22 Unusable Reserves

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Commissioner. The balance of unusable reserves as shown on the Balance Sheet (page 36) is shown in the table below:

	Note	As at 31 March 2012 £'000	As at 31 March 2013 £'000
Revaluation Reserve	22a	7,755	7,095
Pensions Reserve - LGPS	22e	(712)	(968)
Capital Adjustment Account	22b	41,875	36,460
Collection Fund Adjustment Account	22c	255	447
Accumulated Absences Account	22d	(30)	(25)
		49,143	**43,009**

22.a Revaluation Reserve

The Revaluation Reserve contains the overall gains made by the Commissioner arising from increases in the value of Property, Plant and Equipment and Intangible assets. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost,
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve records the unrealised net gain from the revaluation of non current assets accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account. The balance is made up of individual credit balances associated with specific assets and will be equal to the difference between the current value net book value (NBV) and the historic cost NBV for all assets.

The movements on the reserve during 2012-13 and the previous year are set out in the table below:-

	2011-12 £'000	2012-13 £'000
Balance at Start of Year	**8,122**	**7,755**
Adjustment to Opening Balance	**0**	141
Write out of Revalued Amount on Impairment	0	0
Upward revaluation of assets	83	4
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(335)	(607)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Servcies	**(252)**	**(603)**
Difference between fair value depreciation and historical cost depreciation	(1)	0
Accumulated gains on assets sold or scrapped	(114)	(198)
Amount written off to Capital Adjustment Account	**(115)**	**(198)**
Balance at End of Year	**7,755**	**7,095**

22.b Capital Adjustment Account

The Capital Adjustment Account (CAA) absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Commissioner as finance for the costs of acquisition, construction and enhancement. The account contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation reserve was created to hold such gains. Note 4 provides details of the source of all the transactions posted to the account apart from those involving the revaluation reserve.

The movements on the account during 2012-13 and the previous year are set out in the table below:-

	2011-12 £'000	2012-13 £'000
Balance at Start of Year	**45,411**	**41,875**
Adjustment to Opening Balance	0	(141)
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure		
Charges for depreciation and impairment of non-current	(4,586)	(4,692)
Revaluation losses on Property, Plant and Equipment	(1,427)	(2,993)
Amortisation of Intangible assets	(722)	(703)
Amounts of non-current assets written off on disposal or sale as part of the gain or loss on disposal to the Comprehensive Income and Expenditure Statement	(542)	(1,204)
	(7,277)	**(9,592)**
Adjusting amounts written out of the Revaluation Reserve	115	198
Net written out amount of the cost of non-current assets consumed in the year	**(7,162)**	**(9,394)**
Capital financing applied in the year		
Use of the Capital Receipts Reserve to finance new capital expenditure	471	139
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	346	510
Application of grants to capital financing from the Capital Grants Unapplied Account	771	122
Statutory provision for the financing of capital investment charged against the Police Fund	337	377
Capital expenditure charged against the Police Fund	1,701	2,972
	3,626	**4,120**
Balance at End of Year	**41,875**	**36,460**

22.c Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax payers compared with the statutory arrangements.

The end of year balance on the account reflects the Commissioner's aggregate share of the Surplus/Deficit on the Collection fund operated by each of the 6 district councils (or billing authorities) that has yet to be distributed. The movements on the account during 2012-13 and the previous year are set out in the table below:

	2011-12 £'000	2012-13 £'000
Balance at Start of Year	**168**	**255**
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	87	192
Balance at End of Year	**255**	**447**

22.d Accumulated Absences Account

The short-term accumulated absences account absorbs the differences that would otherwise arise on the Police Fund balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave, flexi leave, time off in lieu and rest day entitlements carried forward at 31 March. Statutory arrangements require that the impact on the Police Fund Balance is neutralised by transfers to or from the Account.

	2011-12 £'000	2012-13 £'000
Balance at Start of Year	**(52)**	**(30)**
Settlement or cancellation of accrual made at the end of the preceeding year	52	30
Amounts accrued at the end of the current year	(30)	(25)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	**22**	**5**
Balance at End of Year	**(30)**	**(25)**

22.e Pensions Reserve

The Pension Reserve (LGPS) absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding in accordance with statutory provisions. The Commissioner accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Commissioner makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pension Reserve therefore shows a shortfall in the benefits earned by past and current employees and the resources the Commissioner has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	LGPS Pensions	
	2011-12 £'000	2012-13 £'000
Balance at Start of Year	**(657)**	**(712)**
Actuarial gains or (losses) on pension assets and liabilities	(23)	(217)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(140)	(136)
Employer's pension contributions and direct payments to pensioners payable in the year.	108	97
Balance at End of Year	**(712)**	**(968)**

23 The Cash Flow Statement

This statement summarises the inflows and outflows of cash and cash equivalents arising from transactions with third parties for revenue and capital purposes. Cash is defined for the purpose of this statement, as cash in hand and deposits repayable on demand less overdrafts repayable on demand. The cashflow statement is shown on page 37.

Notes to the Accounts

23.a Operating Activities

The cash flows for operating activities include the following items:

	2011-12 £000s	2012-13 £000s
Interest received	(457)	(193)
Interest paid	694	680

23.b Investing Activities

The cash flows from investing activities are made up as follows:

	2011-12 £000s	2012-13 £000s
Purchase of property, plant and equipment and intangible assets	3,892	4,028
Purchase of short-term and long-term investments	85,000	104,300
Proceeds from the sale of property, plant and equipment and intangible assets	(478)	(1,343)
Proceeds from short-term and long-term investments	(87,500)	(106,200)
Other receipts from investing activities	(1,139)	(1,059)
Net cash flows from investing activities	**(225)**	**(274)**

23.c Financing Activities

The cash flows from financing activities are made up as follows:

	2011-12 £000s	2012-13 £000s
Cash receipts of short and long-term borrowing	0	0
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	68	77
Repayment of short and long-term borrowing	139	63
Net cash flows from financing activities	**207**	**140**

24 Comprehensive Income and Expenditure Statement

This account summarises the resources that have been generated and consumed in providing policing and crime reduction services during the year. It includes all day to day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year.

24.a Comprehensive Income and Expenditure Statement Categories

The Code requires the Commissioner's financial statements to show the Comprehensive Income and Expenditure Statement in a form as recommended by SERCOP. This is designed both to provide more meaningful information about how resources are utilised and also to allow more meaningful comparison amongst policing organisations. SERCOP has reaffirmed the concept of Total Cost, which requires consistent appropriation of support costs and overheads to defined areas of front line policing activity. The Police Objective Analysis (POA) was introduced by the Home Office and was used as a basis for reporting the service expenditure analysis for the first time in the 2009-10 accounts. The defined areas, together with some explanations as to their content, are set out below:-

(a) Police Services, this includes the following activities:

- Local Policing – neighbourhood policing, incident management, local investigation, community liaison, local command team and support overheads.
- Dealing with the Public – local call centre/front desk, central communications unit.
- Criminal Justice Arrangements – custody/prisoner handling, criminal justice arrangements, Police National Computer, civil disclosure/criminal records bureau, coroner assistance, fixed penalty scheme/central ticket office.
- Roads Policing – traffic units, vehicle recovery, road safety partnership
- Specialist Operations – central operations command team and support overheads, underwater search/marine support, dogs sections, level 1 advanced public order, firearms unit, civil contingencies.
- Intelligence – central intelligence command team and support overheads, intelligence/threat assessments, covert policing.
- Specialist Investigation – crime support command team and support overheads, major investigations unit, economic crime, serious and organised crime unit, public protection.
- Investigative Support – scenes of crime officers, external forensic costs, fingerprint/DNA bureau, photographic image recovery, other forensic services.
- National Policing – secondments (out of force), counter terrorism/special branch, ACPO projects/initiatives.

(b) Corporate and Democratic Core Costs:

- Democratic Representation and Management – all member expenses; officer time spent on appropriate advice activities; subscriptions to local authority associations etc.
- Corporate Management – costs of head of paid service; maintenance of statutory registers; statutory returns and statistics; external audit and inspections; Treasury Management; bank charges.

(c) Non Distributed Costs:

- Pension costs – past service costs, curtailments and settlements.
- Depreciation costs and impairment losses in relation to assets under construction and surplus assets held for disposal.

Notes to the Accounts

24.b Subjective Analysis of Income and Expenditure

The revenue income and expenditure account is shown below on a subjective basis for information.

2011-12 Gross Expenditure £'000	2011-12 Gross Income £'000	2011-12 Net Expenditure £'000	Area of Expenditure	Notes	2012-13 Gross Expenditure £'000	2012-13 Gross Income £'000	2012-13 Net £'000
9,191	(8,413)	778	Police Staff Pay and Allowances		6,954	(6,376)	578
487	(453)	34	Other Employee Costs		449	(405)	44
10,304	0	10,304	Contribution to Police Pension Fund Account		12,058	0	12,058
19,982	**(8,866)**	**11,116**	**Total Employee Costs**		**19,461**	**(6,781)**	**12,680**
3,660	(4,756)	(1,096)	Premises		3,761	(4,995)	(1,234)
43	(887)	(844)	Transport		16	(970)	(954)
253	(3,215)	(2,962)	Supplies and Services		519	(3,063)	(2,544)
694	0	694	External Interest		680	0	680
4	0	4	Agency and Contract Services		218	0	218
26	0	26	Support Services		1	0	1
150	(126)	24	Pension Interest Costs	18	151	(121)	30
6,735	0	6,735	Fixed Asset Charges		8,388	0	8,388
111,549	0	111,549	Funding from PCC to Reimburse Expenditure by CC		106,618	0	106,618
143,096	**(17,850)**	**125,246**	**Gross Operating Expenditure**		**139,813**	**(15,930)**	**123,883**
0	(3,284)	(3,284)	Income from Fees and Charges		0	(3,624)	(3,624)
0	(4,079)	(4,079)	Income from Grants & Contributions - Central Govt.	31	0	(3,671)	(3,671)
0	(386)	(386)	Income from Grants & Contributions - Other	31	0	(267)	(267)
0	(244)	(244)	Interest and Investment Income		0	(104)	(104)
13	0	13	Non Distributed Costs	18	6	0	6
16	0	16	Gain or Loss on Sale of Fixed Assets	6d	0	(173)	(173)
0	(688)	(688)	PFI Grant	31	0	(688)	(688)
0	(10,304)	(10,304)	Pensions Top Up grant	31	0	(12,058)	(12,058)
143,125	**(36,835)**	**106,290**	**Net Operating Expenditure**		**139,819**	**(36,515)**	**103,304**
337	0	337	Minimum Revenue Provision	27	377	0	377
(32)	0	(32)	Pensions Adjustment	18	(39)	0	(39)
(6,799)	0	(6,799)	Capital Financing Adjustment		(8,250)	0	(8,250)
1,701	0	1,701	Revenue Contribution to Capital		2,972	0	2,972
(1,716)	0	(1,716)	Transfer to /(from) Earmarked Reserves	5	3,240	0	3,240
3,776	0	3,776	Transfer to /(from) Capital Reserves	5	(600)	0	(600)
1,139	0	1,139	Transfer to Capital Grant Unapplied		1,059	0	1,059
87	0	87	Transfers to / (from) the Collection Fund Adj. A/c	22c	192	0	192
22	0	22	Transfers to/(from) the Short term Compensated Absences Account	22d	5	0	5
0	(34,478)	(34,478)	Income from Council Tax	32	0	(35,782)	(35,782)
			General Government Grants				
0	(33,055)	(33,055)	- Home Office Police Grant	31	0	(30,545)	(30,545)
0	(1,139)	(1,139)	- Home Office Capital Grant & Other Capital Grants	31	0	(1,059)	(1,059)
0	(8,530)	(8,530)	- Revenue Support Grant	31	0	(663)	(663)
0	(27,596)	(27,596)	National Non Domestic Rates Redistribution	31	0	(34,195)	(34,195)
141,640	**(141,633)**	**7**	**Total**		**138,775**	**(138,759)**	**16**
		7	**(Surplus) / Deficit for the Year**				**16**
		(5,149)	Police Fund Balance Brought Forward				(5,149)
		(7)	Capital Receipt Transferred to Police Fund				(16)
		(5,149)	**Police Fund Balance Carried Forward**				**(5,149)**

24.c Segmental Income and Expenditure

The income and expenditure of the Commissioner's principal segments is recorded in the budget reports for the year as follows:

The figures for 2012-13 are as follows:

	Support Services £000s	Office of PCC £000s	Total £000s
Fees, charges & other service income	0	(3,885)	**(3,885)**
Government Grants	0	(3,671)	**(3,671)**
Total Income	**0**	**(7,556)**	**(7,556)**
Employee expenses	185	442	**627**
Other operating expenses	386	496	**882**
'Funding provided By PCC to CC	0	106,618	**106,618**
Total operating expenses	**571**	**107,556**	**108,127**
Net Expenditure	**571**	**100,000**	**100,571**

The comparative information for 2011-12 is as follows:

	Support Services £000s	Office of PCC £000s	Total £000s
Fees, charges & other service income	0	(3,284)	**(3,284)**
Government grants	0	(4,464)	**(4,464)**
Total Income	**0**	**(7,748)**	**(7,748)**
Employee expenses	268	572	**840**
Other operating expenses	214	221	**435**
'Funding provided By PCC to CC		111,549	**111,549**
Total operating expenses	**482**	**112,342**	**112,824**
Net Expenditure	**482**	**104,594**	**105,076**

24.d Reconciliation of Segmental Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

	2011-12 £000s	2012-13 £000s
Net Expenditure in Service Analysis (above)	105,076	100,571
Add technical accounting adjustments (not reported in management accounts)	1,422	(34)
Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement	(10)	3,027
Net Cost of Services in Comprehensive Income and Expenditure Statement	**106,488**	**103,564**

24.e Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of segmental Income and Expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

The figures for 2012-13 are as follows:

	Service Analysis £000s	Services not in Analysis £000s	Technical Adjustments £000s	Not included in CI&ES £000s	Net Cost of Services £000s	Corporate Amounts £000s	Total £000s
Fees, charges & other service income	(3,885)	0	0	0	**(3,885)**	(7)	**(3,892)**
Interest and investment income	0	0	0	0	**0**	(104)	**(104)**
Income from council tax	0	0	0	0	**0**	(35,782)	**(35,782)**
Government grants and contributions	(3,671)	0	0	0	**(3,671)**	(79,207)	**(82,878)**
Total Income	**(7,556)**	**0**	**0**	**0**	**(7,556)**	**(115,100)**	**(122,656)**
Employee expenses	627	0	(34)	34	**627**	30	**657**
Other service expenses	882	0	0	0	**882**	12,058	**12,940**
Depreciation, amortisation and impairment	0	0	0	2,993	**2,993**	0	**2,993**
Interest Payments	0	0	0	0	**0**	680	**680**
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	**0**	(173)	**(173)**
'Funding provided By PCC to CC	106,618	0	0	0	**106,618**	0	**106,618**
Total operating expenses	**108,127**	**0**	**(34)**	**3,027**	**111,120**	**12,595**	**123,715**
(Surplus) or deficit on the provision of services	**100,571**	**0**	**(34)**	**3,027**	**103,564**	**(102,505)**	**1,059**

The comparative information for 2011-12 is as follows:

	Service Analysis £000s	Services not in Analysis £000s	Technical Adjustments £000s	Not included in CI&ES £000s	Net Cost of Services £000s	Corporate Amounts £000s	Total £000s
Fees, charges & other service income	(3,284)	0	0	0	**(3,284)**	0	**(3,284)**
Interest and investment income	0	0	0	0	**0**	(244)	**(244)**
Income from council tax	0	0	0	0	**0**	(34,478)	**(34,478)**
Government grants and contributions	(4,464)	0	0	0	**(4,464)**	(81,312)	**(85,776)**
Total Income	**(7,748)**	**0**	**0**	**0**	**(7,748)**	**(116,034)**	**(123,782)**
Employee expenses	840	0	(5)	(10)	**825**	24	**849**
Other service expenses	435	0	0	0	**435**	10,304	**10,739**
Depreciation, amortisation and impairment	0	0	1,427	0	**1,427**	0	**1,427**
Interest Payments	0	0	0	0	**0**	694	**694**
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	**0**	16	**16**
Funding provided By PCC to CC	111,549	0	0	0	**111,549**	0	**111,549**
Total operating expenses	**112,824**	**0**	**1,422**	**(10)**	**114,236**	**11,038**	**125,274**
(Surplus) or deficit on the provision of services	**105,076**	**0**	**1,422**	**(10)**	**106,488**	**(104,996)**	**1,492**

25 Members Allowances and Expenses

The Code of Practice on Local Authority Accounting requires the disclosure of the total amount of members allowances paid in the year. This is set out in the table below together with a comparative figure for the previous year. A full disclosure of allowances and expenses paid to individual members can be found on the Police and Crime Commissioners website at http://www.cumbria-pcc.gov.uk/media/11836/CPA%20Members%20Allowances%20and%20Expenses%202012-13.pdf

	2011-12 £'000	2012-13 £'000
Basic Allowance	164	106
Special Responsibility Allowance	41	28
Telephone Allowance	2	1
Travel and Subsistence	24	30
Conferences and Training	2	0
National Insurance	12	7
	245	**172**

26 Audit Fees

In 2012-13 the Commissioner incurred the following fees relating to external audit and inspection services provided by the Audit Commission up to September 2012 and by Grant Thornton UK LLP from September 2012.

	2011-12 £'000	2012-13 £'000
Amounts Relating to The Police and Crime Commissioner		
Fees payable to The Audit Commission with regard to external audit services carried out by the appointed auditor.	75	0
Fees payable to Grant Thornton UK LLP with regard to external audit services carried out by the appointed auditor.	0	45
Rebate from Audit Commission in year.	(6)	(3)
Total External Audit Fees for Year	**69**	**42**

27 Minimum Revenue Provision

Regulations 27 and 28 of the Capital Financing and Accounting Regulations 2003 require Authorities to make a provision from revenue for the repayment of any undischarged credit liabilities. This is referred to as the Minimum Revenue Provision (MRP). Additional voluntary contributions are permitted, which have the effect of reducing an authority's Capital Financing requirement.

In line with the Capital Finance and Accounting regulations a Statement of MRP Policy was approved in February 2012 as part of the Treasury Management Strategy Statement. The policy states that MRP will be calculated using the regulatory method for debt incurred prior to 1 April 2008 and on the asset life basis for debt incurred after this date. In respect of PFI assets brought onto the balance sheet under the 2009 SORP, the MRP provision will match the annual principal repayment for the associated deferred liability.

28 Disclosure of Remuneration for Senior Employees

The following table sets out the remuneration disclosures for Senior Officers whose salary is less than £150,000 but more than £50,000 per year.

At stage one of the PCC transition process legal responsibility for employment of all police staff transferred to the Commissioner. A number of senior employees provide advice and support to both the Commissioner and the Chief Constable but as these officers formally sit on the decision making body of the Chief Constable for Cumbria Constabulary, their disclosures have been included in the single entity financial statements of the Chief Constable.

The table below gives the information for 2012-13 in £000's.

Postholder Information Post Title	Note	Salary (including Fees & Allowances)	Bonuses	Expense Allowances	Benefits in Kind	Total Remuneration Excluding pension Contributions	Pension Contributions	Total Remuneration Including pension Contributions
Police & Crime Commissioner	1	23	0	2	1	**26**	3	**29**
PCC Chief Finance Officer		74	0	0	0	**74**	8	**82**
PCC Chief Executive		87	0	2	1	**90**	10	**100**
Total		**184**	**0**	**4**	**2**	**190**	**21**	**211**

Notes:

1 - The Police & Crime Commissioner for Cumbria took office on the 22 November 2012 working full time (part year figures only). The full time equivalent salary for the role is £65k.

The comparative figures for 2011-12 in £000's, are set out in the table below:

Postholder Information Post Title	Note	Salary (including Fees & Allowances)	Bonuses	Expense Allowances	Benefits in Kind	Termination Pay & Compensation for Loss of Office	Total Remuneration Excluding pension Contributions	Pension Contributions	Total Remuneration Including pension Contributions
Chief Executive		87	0	2	1	0	**90**	10	**100**
Treasurer (A)	1	30	0	0	0	0	**30**	3	**33**
Treasurer /Deputy Chief Executive (B)	2	29	0	0	0	0	**29**	3	**32**
Total		**146**	**0**	**2**	**1**	**0**	**149**	**16**	**165**

Notes:

1 - Police Authority Treasurer (A) was part time (0.50 WTE) and retired with effect from 31 November 2011. The whole time equivalent salary is £74,103

2 - Police Authority Treasurer/Deputy Chief Executive (B) was appointed on 9 November 2011 working full time. The full year equivalent salary is £74,103.

29 Employee Remuneration

The Code of Practice on Local Authority Accounting requires the disclosure of the number of employees whose remuneration, excluding pension's contributions, exceeded £50,000 in 2012-13 in bands of £5,000. This is set out in the table below:

Remuneration Band	2011-12 Police Staff	2012-13 Police Staff
£50,000 to £54,999	3	2
£55,000 to £59,999	4	2
£60,000 to £64,999	2	1
£65,000 to £69,999	1	1
£70,000 to £74,999	4	4
£75,000 to £79,999	3	1
£80,000 to £84,999	0	1
£85,000 to £89,999	1	2
£90,000 to £94,999	0	0
£95,000 to £99,999	0	0
£100,000 to £104,999	0	0
£105,000 to £109,999	0	0
£110,000 to £114,999	0	0
£115,000 to £119,999	0	0
£120,000 to £124,999	0	0
£125,000 to £129,999	0	0
£130,000 to £134,999	0	0
£135,000 to £139,999	0	0
£140,000 to £144,999	0	0
£145,000 to £149,999	0	1
£150,000 to £154,999	0	0
£155,000 to £159,999	0	1
Total	**18**	**16**

The above table includes staff employed by the Commissioner and for whom decision making rests with the Commissioner's Chief Executive. A number of these staff provide support on a shared service basis to the Commissioner and the Chief Constable and are recharged between the single entity statements.

The table above includes those employees that are also required to be disclosed on a more detailed individual basis. Please see note 28 for more information.

30 Related Party Transactions

The Commissioner is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Commissioner or to be controlled or influenced by the Commissioner. Disclosure of these transactions allows readers to assess the extent to which the Commissioner might have been constrained in his ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Commissioner.

30.a Chief Constable for Cumbria Constabulary

The Police and Crime Commissioner has direct control over the Chief Constable's finances, providing funding for all running costs and taking responsibility for funding of all pensions' liabilities. The Commissioner is responsible for setting the Police and Crime Plan. The Chief Constable retains operational independence and operates within the funding agreement set by the Commissioner, to deliver the aims and objectives set out in the Police and Crime Plan. Section 28 of the Police Reform and Social Responsibility Act 2011 requires that the local authorities covered by the police area must establish a Police and Crime Panel (PCP) for that area. The PCP scrutinises the decisions of the Commissioner, reviews the Police and Crime Plan and has a right of veto over the precept.

30.b Central Government

Central government has effective control over the general operations of the Commissioner – it is responsible for providing the statutory framework within which the Commissioner operates and provides the majority of its funding in the form of grants. Grants received from government departments are set out in the Comprehensive Income and Expenditure Statement (page 35). Government Grants included within the Net Cost of Services are detailed in note 31 below, the extent to which these grants are outstanding at the end of the year is recorded in debtors note 14.

30.c Members

Prior to the Introduction of the Commissioner on 22 November 2012, Members of the former Police Authority had direct control over the Authority's financial and operating policies and are therefore required to declare any direct financial relationship through outside bodies or companies with the Commissioner. The Commissioner now has 4 appointed Member's who serve on the Joint Audit and Standards Committee. No material transactions have been reported in respect of the 2012-13 financial year. The total members allowances paid in 2012-13 are shown in note 25.

30.d Employees

Employees of the Commissioner were asked to declare any direct financial relationship through outside bodies or companies with the Commissioner. No material transactions have been reported in respect of the 2012-13 financial year.

30.e Other Public Bodies

The Commissioner's transactions with the Cumbria Local Government Pension Scheme (administered by County Council) are shown in note 18.

The amounts received in respect of council tax income from the 6 Cumbrian District Councils are detailed in note 32.

31 Grant Income

The Authority credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2012-13.

	Re-stated 2011-12 £'000	2012-13 £'000
Credited to Taxation and Non Specific Grant Income		
Capital grants and contributions - Mobile Data	346	122
Capital grants and contributions - General	793	937
National Non Domestic Rates redistribution	27,596	34,195
Revenue Support Grant	8,530	663
Home Office Police Grant	33,055	30,545
PFI Grant	688	688
Home Office Pension Grant (Police)	10,304	12,058
TOTAL	**81,312**	**79,208**
Credited to Services		
Grants and Contributions - Central Government		
ACPO Special Operations (ACPO)	1	20
Council Tax Freeze Grant (DCLG)	858	0
Council Tax Reform (DCLG)	0	27
Crime and Substance Misuse Prevention	0	56
Criminal Justice Unit (Home Office)	10	0
Criminal Records Bureau (Home Office)	246	229
Debt Charges (Home Office)	67	40
Dedicated Security Posts (Home Office)	278	349
Mobile Data (NPIA)	84	154
Northern Chain (Home Office)	0	319
Police Community Support Officers (Home Office)	2,233	2,335
Prison Liason (ACPO)	60	82
Special Formula Grant (Home Office)	171	0
Others (Security Service, Home Office)	71	60
	4,079	**3,671**
Grants and Contributions - Other		
Local Partnership	294	173
Youth Offending Team (Cumbria CC)	92	94
	386	**267**
TOTAL	**4,465**	**3,938**

This table previously reported government grants only, the table has now been amended to show both government grants and contributions. Comparative information for 2011-12 has been restated to be shown on a like for like basis.

32 Income from Council Tax

The income from Council Tax is received as precept from the six district councils as set out below:

District	Precept Paid 2012-13 £'000	Adjustment Re Debtors/ (Creditors) £'000	Income from Council Tax £'000
Allerdale District Council	6,424	97	6,521
Barrow Borough Council	4,301	41	4,342
Carlisle City Council	6,993	9	7,002
Copeland Borough Council	4,486	26	4,512
Eden District Council	4,133	18	4,151
South Lakeland District Council	9,253	1	9,254
	35,590	**192**	**35,782**

The comparative information for 2011-12 is as follows:

District	Precept Paid 2011-12 £'000	Adjustment Re Debtors/ (Creditors) £'000	Income from Council Tax £'000
Allerdale District Council	6,231	33	6,264
Barrow Borough Council	4,170	31	4,201
Carlisle City Council	6,743	14	6,757
Copeland Borough Council	4,346	6	4,352
Eden District Council	3,961	28	3,989
South Lakeland District Council	8,940	(25)	8,915
	34,391	**87**	**34,478**

33 Contingent Liabilities

Insurance Claims

A number of claims are being pursued against the Commissioner, the majority of which will be contested. The Commissioner maintains provisions to meet the costs of uninsured liabilities and legal costs and considers that there is no need to make further provision for these claims.

Prior to 1992, the former Police Authority was insured through Municipal Mutual Insurance Ltd (MMI) as part of Cumbria County Council's wider insurance contract. In September 1992, MMI ceased underwriting operations and a scheme of arrangement was put in place to achieve a solvent run off of the company's assets in meeting future claims arising from the period where MMI provided insurance cover, in which Cumbria County Council agreed to participate.

On the 13 November 2012 the directors of MMI announced that, following a supreme court judgement against MMI relating to their liability for asbestos related claims where they were the insurance provider at the time of exposure, achievement of a solvent run off would not be possible. As a result the directors triggered MMI's Scheme of Arrangement (the Scheme), which sets out the arrangements for the administration of MMIs liabilities in the event that a solvent run off was not achieved.

The Scheme provides that following a 'trigger event' a levy may be imposed on all claims settled on behalf of Authorities since 1993 and that future claims will be settled at a reduced rate. Following an actuarial review of potential liabilities, Ernst and Young, the Scheme's administrators, have determined that an initial levy at the rate of 15% will be imposed. Based on the position at the 31st March 2013 the Commissioner's liability is calculated at £45k, for which a provision has been made in the 2012-13 accounts. The Commissioner will also be liable for the levy of 15% from future claims attributable to him and there is the potential that the levy percentage will need to be revised, dependent on the overall level of future claims, which would further impact on the Commissioner's liability. The Commissioner maintains an insurance reserve to meet unknown insurance liabilities which will be used, in part, to meet further liabilities arising from the MMI Scheme.

Injury pensions

A recent tribunal case regarding the payment of injury pensions to a retired police officer has highlighted a conflict between police (injury benefits) regulations and social security legislation. The implication of the ruling is that police injury benefits should no longer be reduced by entitlement to social security benefits. At this stage it is unclear if the decision will have a retrospective impact on police organisations or if the change will be implemented on a future claims basis only. In the absence of further guidance from the Home Office and Department for Work and Pensions, this matter has been treated as a contingent liability in the 2012-13 statement of accounts.

34 Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI contracts).

	2011-12 £'000	2012-13 £'000
Technology Schemes		
Command and Control	134	20
Computer Hardware & Infrastructure	437	703
Finance & Business Systems Upgrade	382	103
Holmes II	22	9
Intelligence Systems - Sleuth	7	0
ICCS - Integrated Command & Control System	0	81
Mobile Working	872	122
Executive Platform	0	5
Information Security	0	20
ICT Delivery	0	85
Enhanced Video Conferencing	0	146
Police National Database	19	8
	1,873	**1,302**
Vehicles Replacement Scheme	**853**	**988**
Building Schemes		
Allerdale Rural deployment Centre	142	672
Fire Behavioural & Public Order Training Facility	197	4
Headquarters - The Green Car Park	(26)	0
Headquarters - Central Services Refurbishment	108	1
Ambleside Police Station Alterations	0	18
South Estate - Kendal	873	136
South Estate - Barrow	0	430
Miscellaneous Property Works	1	0
	1,295	**1,261**
Equipment Schemes		
Automatic Number Plate Recognition	46	27
CID Specialist Equipment	0	60
	46	**87**
Intangible Assets		
Automatic Number Plate Recognition	2	0
ICCS - Integrated Command & Control System	0	117
Command and Control System	34	0
Computer Hardware & Infrastructure	32	61
Finance & Business Systems Upgrade	2	63
Intelligence Systems - Sleuth	2	0
Mobile Working	19	0
Police National Database	3	0
	94	**241**
Total Capital Expenditure	**4,161**	**3,879**

Capital Financing

The table below illustrates the resources used to finance capital expenditure. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Commissioner, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Commissioner that has yet to be financed. The CFR is analysed below.

	2011-12 £'000	2012-13 £'000
Opening Capital Financing Requirement	17,396	17,931
Capital investment		
Property, Plant and Equipment	4,067	3,638
Intangible Assets	94	241
Sources of Finance		
Capital receipts	(471)	(139)
Government grants and other contributions	(1,117)	(632)
Sums set aside from revenue:		
- Direct revenue contributions	(1,701)	(2,972)
- Minimum revenue provision	(337)	(377)
Closing Capital Financing Requirement	**17,931**	**17,690**
Explanation of Movements in Year		
Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	535	(241)
Increase/(decrease) in Capital Financing Requirement	**535**	**(241)**

35 Accounting Standards that have been Issued but have not yet been Adopted

For 2012-13, the following accounting policy changes need amendment to be reported relating to:

- amendments to IAS 1 Presentation of Financial Statements (other comprehensive income, June 2011),
- amendments to IFRS 7 Financial Instruments disclosures (offsetting financial assets and liabilities, December 2011),
- amendments to IAS 12 Income Taxes (deferred tax: recovery of underlying assets, December 2010),
- amendments to IAS 19 Employee benefits (June 2011), and
- IFRS 13 Fair Value Measurement (May 2011).

In the Financial Statements for 2013-14, the effect of the change will be assessed and where necessary, the comparative figures restated.

36 Prior Period Adjustment

As there we no single entity statements produced for 2011-12, there are no prior period adjustments to be reported.

Glossary of Terms

Accruals
The concept that income and expenditure are recognised as they are earned or incurred, not as money is paid or received.

ACPO
The Association of Chief Police Officers.

Actuarial Valuation
A valuation of assets held, an estimate of the present value of benefits to be paid and an estimate of required future contributions, by an actuary, on behalf of a pension fund.

Agency Costs
Services which are performed by or for another authority or public body, where the agent is reimbursed for the cost of the work done.

Amortisation
The practice of reducing the value of assets to reflect their reduced worth over time. The term means the same as depreciation, though in practice amortisation tends to be used for the write-off of intangible assets, such as goodwill.

Budget
A statement of the Police and Crime Commissioner's plans in financial terms. A budget is prepared and approved by the Police and Crime Commissioner before the start of each financial year and is used to monitor actual expenditure throughout the year.

Capital Adjustment Account
The CAA records the balance of resources set aside to finance capital expenditure (i.e. Capital Receipts, Minimum Revenue Provision (MRP), Direct Revenue Contributions (DRC) and Deferred Grants Account (DGA)) and also the consumption of resources associated with the historical cost of acquiring, creating or enhancing non-current assets over the life of those assets (i.e. depreciation/impairment).

Capital Expenditure
As defined in section 16 of the Local Government Act 2003 and regulation 25 of the Capital Finance and Accounting Regulations 2003, but broadly expenditure on the acquisition of a non-current asset or expenditure which adds to and not merely maintains the value of an existing non-current asset.

Capital Receipt
Monies received from the sale of capital assets, which may be used to finance new capital expenditure or to repay outstanding loan debt as laid down within rules prescribed by Central Government. Capital Receipts cannot be used to finance revenue expenditure, with the exception that from 1 April 2010, up to 4% of sale proceeds may be transferred to the General Fund to finance costs directly associated with the disposal of the asset.

Cash and Cash Equivalents
Cash is represented by cash in hand and in bank accounts. Cash Equivalents include demand deposits with financial institutions which are highly liquid in that they are repayable without penalty on notice of not more that 24 hours.

Glossary of Terms

CC
The Chief Constable for Cumbria Constabulary.

CC CFO
The Chief Constable's Chief Finance Officer.

CIPFA
The Chartered Institute of Public Finance and Accountancy. The main professional body for accountants working in the public services.

Componentisation
Identifying and depreciating the components of an asset separately if they have differing patterns of benefits relative to the total cost of the asset.

Contingency
A sum set aside to meet unforeseen expenditure.

Creditors
Amounts owed by the Police and Crime Commissioner for goods and services provided which had not been paid for at the end of the financial year.

Debtors
Amounts owing to the Police and Crime Commissioner but not received at the end of the financial year.

DCLG
The Department for Communities and Local Government, responsible for funding elements of Police and Crime Commissioner's specific and external grant aid.

Depreciation
The measure of the wearing out, consumption, or other reduction in the useful economic life of a non-current asset, whether arising from use, passage of time or obsolescence through technological or other changes.

Direct Revenue Contributions (DRC)
Resources provided from the Police and Crime Commissioner's revenue budget to finance the cost of capital projects.

Earmarked Reserves
Those elements of the Police Fund that have been set aside, "earmarked", for specific purposes.

Heritage Assets
A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge or culture.

HMIC
Her Majesty's Inspectorate of Constabulary who are a government agency responsible for monitoring the standards and performance of Constabularies.

Glossary of Terms

Impairment
A reduction in the value of a non-current asset below its carrying amount on the balance sheet.

Leasing
A method of financing expenditure over a period of time. There are two main types of lease:

- Finance Lease - where the risks of ownership are transferred to the lessee and where the assets are recorded in the Police and Crime Commissioner's balance sheet at a current valuation.

- Operating Lease - where the risks of ownership stay with the leasing company and the annual rental charges are made via the Revenue Account.

Minimum Revenue Provision (MRP)
The minimum amount which must be set aside in the Revenue Account each year as a provision for credit liabilities.

Non-current Assets
An asset, which will yield a benefit to the Police and Crime Commissioner for a period of more than one year.

PCC
The Police and Crime Commissioner for Cumbria.

PCC CFO
The Police and Crime Commissioner's Chief Finance Officer.

Pension actuarial gains and losses
For a defined benefit scheme, the changes in actuarial deficits or surpluses that arise because:

- events have not coincided with actuarial assumptions made for the last valuation (experience gains and losses) or
- the actuarial assumptions have changed.

Pension – current service costs
The increase in the present value of a defined benefit's liabilities expected to arise from employee service in the current period.

Pension – defined benefit scheme
A pension or other retirement benefit scheme other than a defined contribution scheme. The scheme rules define the benefits independently of the contribution payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

Pension assets – expected rate of return
For a funded defined benefits scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Glossary of Terms

Pension – interest costs
For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Pension - past service costs
For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Precept
The demands made by the Police and Crime Commissioner on the district councils who are the billing authority in relation to the collection of council tax.

Provision
An amount set aside to provide for a liability which is likely to be incurred, although the amount and date of that liability are uncertain.

Public Works Loan Board (PWLB)
A Government agency which provides longer term loans to Local Authorities at interest rates which are only slightly higher than those at which the government itself can borrow.

Reserves
An amount set aside for a specific purpose and carried forward to meet expenditure in future years. The Police Fund represents accumulated balances which may be used to support future spending.

Revaluation Reserve
The revaluation reserve records the unrealised net gain from revaluation of non-current assets made after 1 April 2007. The balance is made up of individual credit balances associated with specific assets and will be equal to the difference between the current value net book value (NBV) and the historic cost NBV for all assets.

Revenue Support Grant
A grant from the Department of Communities and Local Government (DCLG) towards the cost of Police and Crime Commissioner services.

SERCOP
The CIPFA Service Reporting Code of Practice. It was introduced as part of the Best Value Regime to bring about more consistent accounting treatment of costs and to facilitate more meaningful financial comparisons between Authorities.

The Commissioner
The Police and Crime Commissioner for Cumbria.

TPA
Territorial Policing Area.

Police and Crime Commissioner Cumbria

Statement of Accounts | 2012-13

(Group Accounts)

Police and Crime Commissioner for Cumbria

Statement of Accounts

(Group Accounts)

2012-13

Police and Crime Commissioner for Cumbria

Statement of Accounts 2012-13

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Annual Governance Statement(s)

The Annual Governance Statements (AGS) for the Police and Crime Commissioner, the Chief Constable and the Former Police Authority have been prepared in accordance with the Accounts and Audit Regulations 2011. In the Accounts and Audit (England) Regulations 2011, SI2011 No 817 – regulation 4(4) provides that the AGS is to accompany accounting statements. A link to the three separate AGS is provided below:

- Police and Crime Commissioner for Cumbria – AGS 2012-13
  http://www.cumbria-pcc.gov.uk/governance-transparency/audit-of-accounts.aspx

- Chief Constable for Cumbria Constabulary– AGS 2012-13
  http://www.cumbria.police.uk/Admin/uploads/attachment/files/FOI/Accounts/The_Chief_Constable_for_Cumbria_Constabulary_-_Annual_Governance_Statement_2012-13.pdf

- Cumbria Police Authority & Constabulary – AGS 2012-13
  http://www.cumbria-pcc.gov.uk/governance-transparency/audit-of-accounts.aspx

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Explanatory Foreword

Introduction

The Police and Crime Commissioner for Cumbria was established as a statutory entity on 22 November 2012 under the Police Reform and Social Responsibility Act 2011 (PRSRA 2011). The PRSRA 2011 provides that there will be a Police and Crime Commissioner for each police area with responsibility for ensuring the maintenance of the police force for the area, securing that the police force is efficient and effective and holding the Chief Constable to account. The Commissioner also has wider responsibilities than those solely relating to the police force, including specific responsibility for the delivery of community safety and crime reduction and wider responsibility for the enhancement of the delivery of criminal justice in their area.

The PRSRA 2011 also established the Chief Constable as a statutory entity, distinct from the Commissioner and with operational independence. The Chief Constable is responsible for maintaining the Queen's peace and the exercise of police powers. The Chief Constable is accountable to the Commissioner for leadership of the force, the delivery of efficient and effective policing and the management of resources and expenditure for the police force.

The Commissioner receives all funding, including government grants, council tax income and other sources of income related to policing and crime reduction. All funding for the Chief Constable must come from the Commissioner. The Commissioner will also set the strategic direction and is responsible for the totality of policing in the force area. This creates a subsidiary relationship between the Commissioner and the Chief Constable. As such, the Commissioner must publish a set of group consolidated accounts in addition to single entity accounts. The Chief Constable must publish single entity accounts and provide information to the Commissioner to support the publication of group accounts.

In the 2011-12 accounts for the Police Authority, a post balance sheet event was included in relation to the suspension of Mr Hyde the temporary Chief Constable on 13 September 2012. On 23rd August 2013 the Police and Crime Commissioner made a decision under conduct regulations in respect of this matter, resulting in the suspension being lifted. The Commissioner further took a decision to suspend TCC Mr Hyde under section 38(2) of the Police Reform and Social Responsibility Act 2011. Mr Hyde's appointment as Temporary Chief Constable ended on 30th August at which point the Commissioner no longer had jurisdiction. These matters gave rise to a post balance sheet event in the 2012-13 accounts as detailed on page 40.

These accounts are the consolidated group accounts of the Commissioner. They are published in accordance with the requirements of the Accounts and Audit regulations 2011. The aim of the financial statement is to demonstrate to the reader the overall financial position of the Commissioner at the end of the financial year together with the cost of the services provided during the year and the financing of that expenditure.

Background

The Commissioner incurs both revenue and capital expenditure, although revenue expenditure is by far the larger amount. Revenue expenditure can broadly be described as day to day running costs and includes most of the costs of operational policing in addition to expenditure with wider partners on community safety and crime reduction. It is funded through a mixture of government grants, the principle of which are the police grant and formula grant, together with locally raised income from Council Tax.

Capital expenditure is made up broadly of expenditure on non-current or fixed assets. These are assets that have a useful life of beyond one year and include expenditure on property, vehicles, ICT and other equipment. Capital expenditure is funded from a home office grant, capital receipts generated from the sale of capital assets and by direct contributions from revenue income.

Explanatory Foreword

The Accounting Statements

The Police and Crime Commissioner's accounts for the 2012-13 financial year are set out on the following pages. A brief explanation of the various parts of the statement and the different accounts is set out as follows:-

1. Introduction by the PCC Chief Finance Officer - Page 6

This contains a brief description of the sources and applications of revenue and capital funds plus an overview of the budget framework for 2012-13 together with a summary of the final position and an outlook for the future.

2. Responsibilities for the Accounting Statements - Page 15

This lays out the nature of and differentiation between the responsibilities of the Commissioner (PCC); the PCC Chief Finance Officer (PCC CFO), the Chief Constable (CC) and the Chief Constable's Chief Finance Officer (CC CFO), with regards to the financial affairs of the Commissioner and the Constabulary and for the preparation of the Statement of Accounts.

3. Statement of Accounting Policies - Page 21

Accounting policies can be defined as *"the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements".* A range of accounting policies and principles, which describe accounting treatments, supports the accounts in this statement. Unless otherwise stated, the accounting treatment is consistent with the guidance notes issued by CIPFA on the application of the various International Financial Reporting Standards (IFRS's) and the Code of Practice on Local Authority Accounting (the Code).

4. Movement in Reserves Statement – Page 36

This statement shows the movement in the year on the different reserves held by the Commissioner, analysed into 'Usable Reserves' (i.e. those that can be applied to fund expenditure or reduce taxation) and other (principally technical accounting) 'Unusable reserves'. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Commissioner's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the Police Fund Balance for council tax setting purposes, the adjustments for which are detailed in the line entitled 'adjustments between accounting basis and funding basis under regulations'. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory Police Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Commissioner.

5. Comprehensive Income and Expenditure Statement - Page 37

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Taxation is raised to cover expenditure in accordance with regulations; this may be different from the accounting cost. The Commissioner prepares this statement in accordance with the service expenditure analysis as required by the Service Reporting Code of Practice (SERCOP), but as in previous years a subjective analysis is provided in the notes to the accounts (note 25b). The taxation position is shown in the Movement in Reserves Statement.

Explanatory Foreword

6. Balance Sheet - Page 38

The Balance Sheet shows the value as at the balance sheet date of the assets and liabilities recognised by the Commissioner. The net assets (assets less liabilities) are matched by the reserves held by the Commissioner. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Commissioner may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the Commissioner is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

7. Cash Flow Statement - Page 39

The Cash Flow Statement shows the changes in cash and cash equivalents of the Commissioner during the reporting period. The statement shows how the Commissioner generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Commissioner are funded by way of taxation and grant income or from the recipients of services. Investing activities represent the extent to which cash outflows have been generated from resources which are intended to contribute to the Commissioner's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing).

8. Notes to the Financial Statements – Page 40

These notes explain in more detail a number of entries in the primary financial statements.

9. Police Officer Pension Fund Accounts – Page 96

The statement sets out the transactions on the Police Officer pension fund account for the year. A page of explanatory notes are also provided.

10. Glossary of Terms - Page 98

This is an explanation of the various technical accounting terms and acronyms, which appear throughout this statement.

Introduction by the PCC Chief Finance Officer

I am pleased to introduce the group financial Statement of Accounts for the 2012-13 financial year. This is the first set of accounts for the Police and Crime Commissioner for Cumbria, setting out the consolidated financial position in respect of the Commissioner and the Chief Constable. On 22 November 2012 the Police and Crime Commissioner and the Chief Constable were established as separate legal entities with a requirement for single entity accounts. The funding and accountability relationship between the entities meets the definition of a subsidiary for the Chief Constable. This results in a requirement for consolidated group accounts. The financial statement sets out the consolidated position of the group and has been produced on the basis of merger accounting. This means that the financial statement shows income and expenditure from 1 April 2012, as if the Commissioner and Chief Constable had been in existence as statutory entities for the full financial year.

The statement provides a breakdown of net spending during the year and shows the strong overall financial position of the Commissioner as at 31 March 2013, despite the impact of significant funding reductions. The reporting format is specifically designed to meet the requirements of the Code of Practice on financial reporting. A series of notes are provided to assist readers in their understanding of the statement, whilst the presentational format is designed to make for easier reading by those who access the document through the Commissioner's website: www.cumbria-pcc.gov.uk. A simplified Summary Statement is also available on the same website together with the single entity statements of the Commissioner and the Chief Constable.

2012-13 Grant Settlement and Budget

The net budget for 2012-13 of £101.035m was set on 15 February 2012. Funding of this amount came from formula and capital grants (£65.445m) and income from Council Tax and the Commissioner's share of district council's collection funds (£35.590m). The budget was set in the context of a four year medium term financial forecast over which income was expected to remain broadly balanced with reductions in central government funding offset by increases in income from Council Tax. Whilst the net position was expected to be consistent over 4 years in respect of income, the position represents a real term reduction in spending power as a consequence of the expected increase in costs from inflation and pay awards over the 4 year period. This results in a requirement for a further £7.6m in cuts against expenditure over and above the £11.7m that is planned for delivery following the 2010 comprehensive spending review. Council tax was increased by 3.6%. This took the Commissioner's proportion of the band D equivalent council tax to £200.79 per annum. The effect of the increase is to support the medium term financial forecast and mitigate some of the impact of cost increases.

Council Tax Requirement 2012-13	£m	£m
Council Tax Requirement 2011-12		34.313
Increase in cost of providing services	1.230	
Management of change costs	(0.198)	
Increase in income and specific grants	(2.216)	
Reduction in general grant funding	3.779	
Savings and efficiency gains	(6.165)	
Increase in contingencies	0.310	
Reduction in redistributed council tax surplus	0.075	
Reduction in net use of reserves	4.459	
		1.274
Council Tax Requirement 2012-13		**35.587**

Introduction by the PCC Chief Finance Officer

Total income from Council Tax and the Commissioner's share of the net surplus on district collection funds was estimated to be £35.590m for 2012-13. Of this, £35.587m relates to Council Tax income, a net increase of £1.274m compared to 2011-12. The most significant factors contributing to the net increase are a £3.779m reduction in general grant funding and a £4.459m reduction in the use of reserves to support the budget. This is offset by over £6m of savings and efficiencies and a £2.2m increase in income and specific grants.

The Commissioner receives additional specific, special and departmental revenue grants from the Home Office (and others) towards sponsored programmes, capital grants towards capital projects and pensions top up grant equal to the Commissioner's deficit contribution in support of police officer pensions.

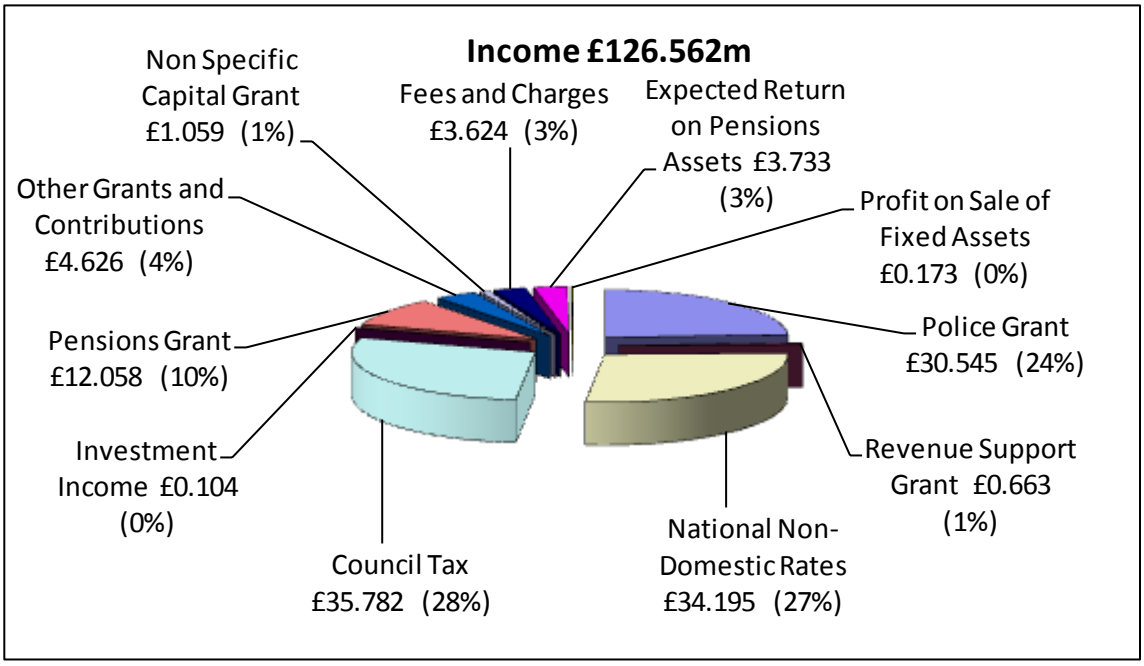
These additional grants received compared to the budgeted figures for 2012-13 and the actual for 2011-12 were as follows. These are set out in greater detail in the notes indicated below:

Additional Grants and Contributions	2011-12 Actual £m	2012-13 Budget £m	2012-13 Actual £m
Revenue (see note 35, page 88)	4.465	3.903	3.939
Capital (see note 35, page 88)	1.139	1.059	1.059
Pensions (see note 35, page 88)	10.304	12.091	12.058
	15.908	**17.053**	**17.056**

Introduction by the PCC Chief Finance Officer

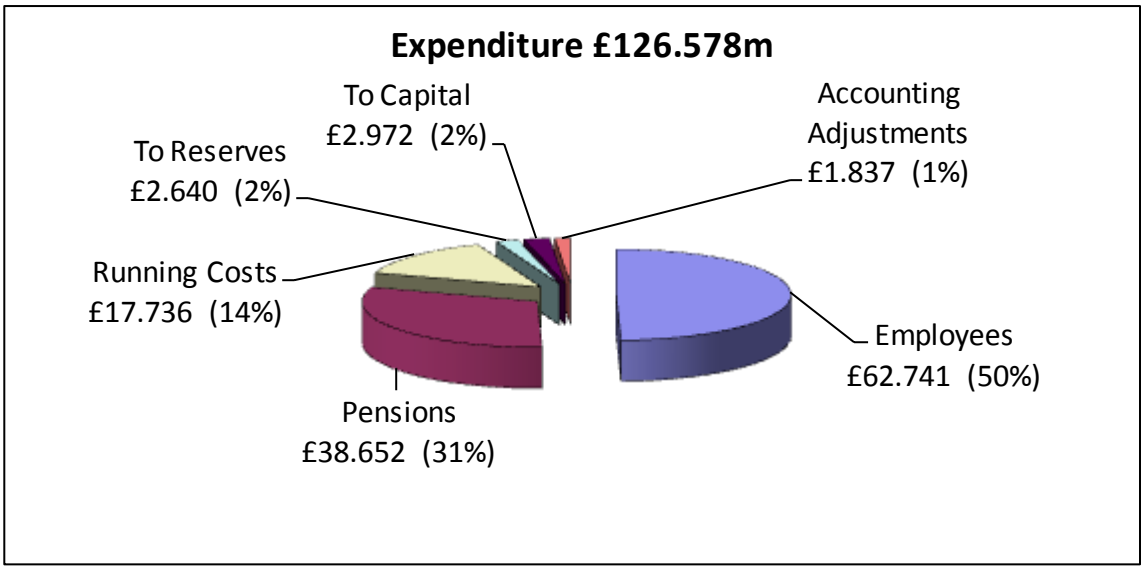
Where the Money Came From

The sources of finance for 2012-13 expenditure are set out in the chart below:



What the Money Was Used For

An analysis of the revenue expenditure for 2012-13 is set out below. The chart demonstrates the large proportion of total costs accounted for by employment (50%) and pension (31%) costs.



The charts above are drawn from the Subjective Analysis of Net Operating Expenditure shown in note 25b, page 78.

Introduction by the PCC Chief Finance Officer

The Police Capital Account

In 2012-13 Capital Expenditure amounted to £3,879k. The program primarily comprised I.T. schemes (£1.30m), building works (£1.26m), expenditure on vehicle replacements (£0.99m) and operational equipment. A summary of the payments and how these were financed is set out in the table below:

Capital Expenditure & Financing	2011-12 £'000	2012-13 £'000
Capital Expenditure		
Technology Related Schemes	1,873	1,302
Vehicle Replacement Schemes	853	988
Building Schemes	1,295	1,261
Operational Equipment	46	87
Intangible Assets (predominantly Software)	94	241
	4,161	**3,879**
Financed by		
Capital Receipts	(471)	(139)
Other Capital Grants and Contributions	(1,117)	(632)
Direct Revenue Financing	(1,700)	(2,972)
Borrowing (Notional/Internal)	(873)	(136)
	(4,161)	**(3,879)**

In 2012-13 the Commissioner has continued to fund the borrowing requirement arising from the capital programme internally. This is due to the Commissioner's high level of cash reserves and the relatively low interest rates available on investing such balances. At the end of the financial year £17.690m (inclusive of PFI contract) of the capital programme is funded by the use of cash backed internal reserves rather than borrowing from the open market. At some point during the forward interest rate cycle, the Commissioner will need to consider taking up external equivalent borrowings.

Introduction by the PCC Chief Finance Officer

The Police Revenue Account

Final revenue expenditure for the financial year is summarised in the table below showing total net expenditure. It also includes capital charges for using fixed assets and pensions adjustments as required by IAS19, together with the necessary financing adjustments to ensure that they do not impact on local taxpayers. The net final outturn for the year after appropriations to earmarked and capital reserves amounted to £102,260k, which resulted in a net reduction in the Police Fund of £16k. The reduction in the Police Fund offsets an increase of £16k, resulting from capital receipts transferred directly to the Police Fund to meet the costs of disposal of land and building assets, leaving the Police Fund balance unchanged at the year end.

Net Expenditure:-	2011-12 £'000	2012-13 £'000
Net Cost of Services	**117,008**	**115,897**
Contribution to / (from) Reserves	(1,716)	3,240
Contribution to / (from) Capital Reserves	3,776	(600)
Transfer to/(from) Capital Grant Unapplied	1,139	1,059
Capital Expenditure met from Revenue Account	1,701	2,972
Financing Adjustments	(6,799)	(8,250)
Pensions Top Up Grant	(10,304)	(12,058)
Total Net Expenditure	**104,805**	**102,260**
Financed By:-		
Police Grant	(33,055)	(30,545)
Revenue Support Grant	(8,530)	(663)
National Non-Domestic Rates	(27,596)	(34,195)
Income from Council Tax	(34,478)	(35,782)
Non Specific Capital Grant	(1,139)	(1,059)
Total Financing	**(104,798)**	**(102,244)**
Contribution to / (from) General Fund Balance	**7**	**16**

Introduction by the PCC Chief Finance Officer

Police and Crime Commissioner Police Fund

The table below shows the movement on the Commissioner's Police Fund during the financial year. The Commissioner's policy to date has been that the Police Fund balance should be maintained at 5% of the annual budget (net of the contribution to the Police Fund itself). At 31 March 2013 this resulted in a balance of £5.15m

Police Fund Balance	As at 31st March 2012 £'000	2013 £'000
Balance at start of year	5,149	5,149
Contribution to / (from) the Police Fund for the year	(7)	(16)
Capital Receipts Transferred to Police Fund	7	16
Balance at end of year	**5,149**	**5,149**
Balance as % of budget requirement	(5.0%)	(5.1%)

Introduction by the PCC Chief Finance Officer

The analysis below based on the Commissioner's management accounts, shows the out-turn variances over the original budget for 2012-13 and the year-on-year variance when compared with actual spending in the previous year.

2011-12 Actual Outturn £000		2012-13 Original Budget £000	2012-13 Revised Budget £000	2012-13 Actual Outturn £000	Variance Outturn Orig Budget £000	Variance Actual Yr on Yr £000
60,973	Police Officer Pay and Allowances	60,076	60,268	59,142	(934)	(1,831)
26,530	Police Staff Pay and Allowances	24,491	24,659	23,696	(795)	(2,834)
11,050	Police Pensions	12,969	12,969	12,937	(32)	1,887
2,377	Other Employee Costs	2,691	2,103	1,989	(701)	(388)
100,930	**Total Employee Costs**	**100,226**	**99,999**	**97,764**	**(2,462)**	**(3,166)**
3,730	Premises Related Expenditure	4,133	4,188	3,821	(312)	91
2,718	Transport Related Expenditure	2,742	2,718	2,684	(58)	(34)
9,546	Supplies and Services Related Expenditure	10,707	9,972	9,201	(1,507)	(345)
0	Efficiency Savings	0	577	0	0	0
759	Third Party Related Expenditure	697	1,089	1,295	598	536
146	Support Services	135	135	135	0	(11)
3,876	Capital Financing and Contributions	3,161	5,074	5,054	1,892	1,178
121,705	**Total Gross Expenditure**	**121,802**	**123,753**	**119,954**	**(1,848)**	**(1,751)**
(4,154)	General Income	(2,645)	(2,906)	(3,843)	(1,198)	311
(15,239)	Grants & Contributions	(16,483)	(17,741)	(17,743)	(1,260)	(2,504)
102,312	**Net Operating Expenditure**	**102,674**	**103,107**	**98,368**	**(4,306)**	**(3,944)**
2,060	Transfers to/(from) Earmarked Reserves	(1,682)	(2,115)	2,640	4,322	580
104,372	**Total Requirement**	**100,992**	**100,992**	**101,008**	**16**	**(3,364)**
(32,405)	General Police Grant	(30,545)	(30,545)	(30,545)	0	1,860
(4,625)	Revenue Support Grant	(663)	(663)	(663)	0	3,962
(31,849)	National Non-Domestic Rates	(34,195)	(34,195)	(34,195)	0	(2,346)
(35,486)	Council Tax Precepts	(35,589)	(35,589)	(35,589)	0	(103)
(104,365)	**Aggregated External Financing**	**(100,992)**	**(100,992)**	**(100,992)**	**0**	**3,373**
7	**(Surplus)/Deficit for the Year**	**0**	**0**	**16**	**16**	**9**

Net operating expenditure in 2012-13 was £4.3m under the original budget. The net position comprises a £2.46m underspend on employee costs, a £1.88m underspend on premises, supplies and transport and £2.46m in unbudgeted income. This is offset by £1.89m in additional contributions to the capital programme and £0.58m in costs in relation to third parties. The cost of third party expenditure is offset by the additional income received. The underspend on employee costs is primarily attributable to the Constabulary operating below establishment for much of the financial year. For 2013-14 workforce plans have been developed supported by a better resourced capability in respect of recruitment. This aims to ensure that officer, PCSO and staff numbers are more closely aligned to the funding provided by the Commissioner.

Pensions Deficit

The Commissioner's 2012-13 balance sheet shows a combined pensions deficit of £1,040m (£877m in 2011-12) for the LGPS and the Police pension scheme to which its employees and former employees belong. However, statutory arrangements for funding the deficit, through increased contributions over a period designed to balance the pensions account and central Government funding mean that the financial position of the Commissioner remains healthy.

Amounts Written Off

The Commissioner has a good collection record in respect of invoices raised for services provided. During 2012-13 only three sundry debtor invoices totalling £417 were authorised to be written off as not collectable. The Bad Debt Provision stands at £2,043 (£2,600 in 2011-12) against the future potential that not all outstanding invoices will prove to be 100% collectable. See Note 14 (Page 58).

Financial Outlook

Whilst the Commissioner's financial position remains robust, the medium term position continues to be challenging. Gross income, at the time of setting the 2013-14 budget, was forecast to be £122.3m but with an estimated reduction to £118.6m by 2016-17. The 2015 spending review is expected to make further reductions in the total level of resources available. In addition work is commencing on a fundamental review of formula funding for Police and Crime Commissioners. The Constabulary, as the main recipient of funding from the Commissioner, has planned for a reciprocal reduction in expenditure in its proposed budgets to ensure an overall balance of resources. Wherever possible reductions seek to protect front line services. Changes to the overall level of funding and the review of formula do however present a degree of uncertainty in respect of the level of income beyond 2014-15.

Contingencies and Reserves

The Commissioner formally recognises the need for contingencies against unplanned and planned expenditure in the future which cannot be accurately quantified at the time of closing the accounts. The Commissioner's Police Fund Balance at 31 March 2013 stands at £5.149m. This represents 5% of the net budget and will be held at this level pending the 2014-15 grant settlement. In addition a number of specific earmarked reserves are maintained to address specific areas of expenditure, usually of a non-recurring nature, which must be incurred over a period of years, but which cannot be formally quantified at the time of closing its accounts. These Reserves totalling £21.565m are detailed in note 5 on page 45.

Material Events after the Balance Sheet date

There have been no material events after the date of the Balance Sheet up to the date of my certificate below which have been, or which were required to be, reflected in the Statement of Accounts for the year ending on 31 March 2013.

Introduction by the PCC Chief Finance Officer

Acknowledgements

The financial statements were originally authorised for issue by me as PCC Chief Finance Officer, on 27 June 2013. Following the completion of the audit, they were re-authorised by me on 23 September 2013 and were formally approved by the Commissioner at a meeting of the PCC Executive Board on the same date.

In closing, it is appropriate to acknowledge the dedication and professionalism of Roger Marshall, the Chief Constable's Chief Finance Officer, Michelle Bellis, Lorraine Holme and the wider finance team in again achieving the closure of accounts and the publication of these Statements against challenging deadlines and complex changes in the financial reporting standards.

Ruth Hunter
PCC Chief Finance Officer

Further information relating to this publication can be gained by contacting:

Mr. W. R. Marshall, CPFA, Chief Constable's Chief Finance Officer, Financial Services, Corporate Support Department, Police H.Q. Carleton Hall, Penrith CA10 2AU (Tel: 01768 217020).

This publication and the more simplified (non-statutory) summary statements are published on the Commissioner's web site and can be accessed by the public from the following web link: www.cumbria-pcc.gov.uk

The accounts present a true and fair view of the position of the Police and Crime Commissioner Group Accounts as at 31 March 2013 and its income and expenditure for the year there ended.

PCC Chief Finance Officer

Ruth Hunter CPFA _____ Date _____

The accounts present a true and fair view of the position of the Police and Crime Commissioner Group Accounts as at 31 March 2013 and its income and expenditure for the year there ended.

Police and Crime Commissioner for Cumbria

Richard Rhodes _____ Date _____

Responsibilities for the Statement of Accounts

1 The Commissioner's Responsibilities

The Police and Crime Commissioner (PCC) is the recipient of funding relating to policing and crime reduction and has statutory responsibility for the Police Fund. The Commissioner is required to:

- Make arrangements for the proper administration of his financial affairs and to secure that one of his officers has the responsibility for the administration of those affairs. In this organisation, that officer is the PCC Chief Finance Officer.
- Manage his affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts.

2 The PCC Chief Finance Officer's Responsibilities

The PCC CFO is responsible for the production of the Statement of Accounts of the PCC, ensuring the receipt and scrutiny of the Statement of Accounts of the Chief Constable and for ensuring the production of group accounts. The PCC CFO is responsible for the preparation of the Commissioner's Statement of Accounts and the group accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Account, the PCC CFO has:

- selected suitable accounting policies and then applied them consistently;
- made judgments and estimates that are reasonable and prudent;
- complied with the local authority code.

The PCC CFO has also:

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The PCC CFO should sign and date the Statement of Accounts, stating that it presents a true and fair view of the financial position of the organisation at the reporting date and its income and expenditure for the year ended 31 March 2013.

Responsibilities for the Statement of Accounts

3 The Chief Constable's Responsibilities

The Chief Constable is accountable to the Police and Crime Commissioner for the management of resources and expenditure by the police force. All funding for the Chief Constable comes from the Police and Crime Commissioner. The Chief Constable is required to:

- Make arrangements for the proper administration of his financial affairs and to secure that one of his officers has the responsibility for the administration of those affairs. In this organisation, that officer is the CC Chief Finance Officer.
- Manage his affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts.

4 The CC Chief Finance Officer's Responsibilities

The CC CFO is responsible for the production of the Statement of Accounts for the Chief Constable and for providing information to the PCC CFO as required for the production of group accounts. The CC CFO is responsible for the preparation of the Chief Constable's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Account, the CC CFO has:

- selected suitable accounting policies and then applied them consistently;
- made judgments and estimates that are reasonable and prudent;
- complied with the local authority code.

The CC CFO has also:

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The CC CFO should sign and date the Statement of Accounts, stating that it presents a true and fair view of the financial position of the organisation at the reporting date and its income and expenditure for the year ended 31 March 2013.

Independent Auditor's Report

4 blank pages left for audit opinion to be inserted after audit completed in September.

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Statement of Accounting Policies

1 General Principles

The Statement of Accounts summarises the financial transactions for the 2012-13 financial year and the financial position at the 31 March 2013. The Police and Crime Commissioner and Chief Constable are each required to prepare an annual Statement of Accounts (single entity) in accordance with the Accounts and Audit Regulations 2011 which stipulate that the statements be prepared in accordance with proper accounting practices. Those practices primarily comprise the CIPFA/LAASAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) and the Service Reporting Code of Practice 2012-13 (SERCOP), supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 act. The Commissioner is responsible for combining the single entity statements to form a set of consolidated group accounts.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets.

2 Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the provision of services is recognised when the percentage completion of the transaction can be reliably measured and that it is probable that economic benefits or service potential associated with the transaction will flow.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories (stock) on the Balance Sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

- An accrual is made in respect of employee benefits payable during employment (see accounting policy 7 below for further details).

3 Cash and Cash Equivalents

Cash is represented by cash in hand, imprests (petty cash) and demand deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents may also include overdrawn balances at the bank where they are an integral part of cash management. Generally, cash and cash equivalents will comprise, cash in hand, bank account balances, overnight deposits and deposits with Money Market Funds which are repayable on demand without penalty or loss of interest.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand or form an integral part of cash management.

4 Exceptional Items

When exceptional items of income and expense are material, their nature and value is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of financial performance.

5 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or when the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the financial position or performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts and notes for the prior period as if the new policy had always been applied.

6 Charges to Revenue for Non-Current Assets

The cost of services are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant services.
- Revaluation and impairment losses on assets used by the services where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of non-current assets attributable to the services.

Council Tax is not required to be raised to fund depreciation, revaluation and impairment losses or amortisations. However, an annual contribution from revenue is required towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis and determined in accordance with statutory guidance. This contribution is known as MRP (Minimum Revenue Provision). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the Police Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

7 Employee Benefits

7.1 Employee Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for functions in the year in which employees render service. An accrual is made for the cost of holiday entitlements, time off in lieu, flexi leave and rest days in lieu earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the salary rate applicable at the balance sheet date. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday and other benefits are charged to revenue in the financial year in which the holiday absence occurs.

7.2 Termination Benefits

Termination benefits are amounts payable as a result of a decision to terminate an individual's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged (on an accruals basis) to the relevant service line in the Comprehensive Income and Expenditure Statement.

Where termination benefits involve enhancement of pensions, statutory provisions require the Police Fund balance be charged with the amount payable to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the pensions reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and any such amounts payable but unpaid at the year-end.

8 Post Employment Benefits

The are two pension schemes for police officers and a single scheme for police staff. They are all defined benefits schemes.

The liabilities of each of the pension funds are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc and projections of earnings for current employees. Liabilities are discounted to their fair value at current prices using a discount rate (see assumptions set out in note 19, page 65).

The change in the net pensions liability is analysed into seven components:

- Current service costs – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employee worked.
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- Interest costs – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Expected return on assets – the annual investment return on the fund assets (Local

Government Pension Scheme (LGPS) only), based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

- Gains or losses on settlements and curtailments – the result of actions to relieve liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited/credited to the Pensions Reserve.
- Contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the Police Fund to be charged with the amount payable to the pension funds in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pension Reserve thereby measures the beneficial impact to the Police Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Note 19 to the primary financial statements provides further information about the pension schemes.

8.2 Police Officers

The original Police Pension Scheme (PPS) is governed by the Police Pension Regulations 1987 (as amended) and related regulations that are made under the Police Pensions Act 1976. The new Police Pensions Scheme (NPPS) is also governed by the Police Pensions Act 1976 (as amended by the Police Pension Regulations 2006).

Both schemes are unfunded which means there are no investment assets built up to meet pensions liabilities from pensions or other retirement benefits for former employees.

The funding arrangements for police officers pensions changed on 1st April 2006. Before April 2006 pensions of former employees were required to be met on a 'pay as you go' basis with the cost charged to the revenue account. From April 2006 onwards there is an employer's contribution rate set by the Home Office (currently 24.2% of pensionable salary), which is charged to the Comprehensive Income and Expenditure Statement.

Also from 1st April 2006 legislation required the operation of a Pension Fund Account (shown on page 95). The amounts that must be paid into and out of the fund are specified by regulation. Officers' contributions and the employer's contributions are paid into the pension fund account from which pension payments are made. Any shortfall on the pension fund account is met by a contribution from the police fund. A Home Office Grant is received to cover this contribution. Conversely, a surplus on the Pension Fund Account would result in a contribution to the police fund, which would then be recouped by the Home Office.

8.3 Police Staff

Police staff, subject to certain qualifying criteria, are eligible to join the LGPS, which is a funded defined benefit scheme. Pensions and other retirement benefits are paid from the fund. Employers and employees make regular contributions into the fund so that the liabilities are paid for evenly over the employment period.

Actuarial valuations of the fund are undertaken every three years to determine the contribution rates needed to meet its liabilities.

The assets of the LGPS pension fund are included in the Balance Sheet at their fair value:

- Quoted securities – current bid price
- Unquoted securities – professional estimate
- Unitised securities – current bid price
- Property – market value

The Accounts show the full implementation of IAS19 (Employee Benefits). IAS19 requires organisations to recognise retirement benefits in the Comprehensive Income and Expenditure Statement when they are earned, even though the benefits will not be payable until employees retire. However, as statutory procedures require the charge against Council Tax to be based on the amounts payable to the pension fund during the year, an appropriation is made within the pensions reserve equal to the net change in the pensions liability recognised in the Comprehensive Income and Expenditure Statement. The neutralising entry is made through the Movement in Reserves Statement. The Balance Sheet discloses the net liability in relation to retirement benefits. The figures are based on the Actuary's latest estimate.

There are restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and are accounted for using the same policies as applied to the LGPS.

9 Events after the Balance Sheet Date

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date the Statement of Accounts is authorised for issue which have an impact on the financial statements and are treated as follows. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the event and their estimated financial effect.

10 Financial Instruments - Financial Liabilities

Financial Liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For borrowings this means that the amount presented on the Balance Sheet is the outstanding amount of principal repayable and interest charged to the Comprehensive Income and Expenditure

Statement is the amount payable for the year in the loan agreement. Borrowing is undertaken and accounted for in accordance with the Treasury Management Strategy. Where a payable (i.e. creditor) has a maturity of less than 12 months the fair value is taken to be the principal outstanding, or the billed/invoiced amount.

11 Financial Instruments - Financial Assets

Financial assets are classified into two types:

- Loans and Receivables – assets that have fixed or determinable payments but are not quoted in an active market. Trade debtors and investments are classified as loans and receivables.
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments. There are no available-for-sale assets.

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. Where a receivable (i.e. debtor) has a maturity of less than 12 months, the fair value is taken to be the principal outstanding or the billed/invoiced amount. Investments are shown in the balance sheet at cost. Where investments are fixed term deposits, accrued interest owing at the balance sheet date is included in the Comprehensive Income and Expenditure Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement. An example of such a charge would be the adjustment made to the debtors balance as a provision for bad debts (see note 14, page 58).

Investments are undertaken and accounted for in accordance with the Treasury Management Strategy.

12 Government Grants and Contributions

Whether paid on account, by installments or in arrears, government grants and third party contributions and donations are recognised as due when there is reasonable assurance of:

- compliance with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor. Monies advanced as grants or contributions for which conditions have not been satisfied are carried on the balance sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant function line (attributable revenue grants and contributions) or Taxation and Non-Specific Grants Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the Police Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied

reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

13 Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset. Intangible assets are initially measured at cost amounts and are only revalued where the fair value of the asset can be determined by an active market. The depreciable amount of an intangible asset is amortised over its useful life (usually 5 years) to the relevant function(s) in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the Police Fund Balance. The amortisation, impairment and gains and losses on disposal are therefore reversed out of the Police Fund in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds over £10,000) the Capital Receipts Reserve. An asset is tested for impairment, whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

14 Inventories

Inventories (stocks) are included in the balance sheet at historic cost. This is a departure from IAS2 which requires inventories to be valued at the lower of cost or net realisable value. However, for many stock items, particularly uniforms, net realisable value would be minimal and would not accurately reflect the value of holding these assets.

15 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and building elements are considered separately for classification.

Agreements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfillment of the arrangement is dependent on the use of specific assets.

15.1 Finance leases (as Lessee)

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer at the end of the lease period).

Council tax is not required to be raised to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the Police Fund balance, by way of an adjusting transaction within the Capital Adjustment Account in the Movement in reserves Statement for the difference between the two.

15.2 Operating Leases (as Lessee)

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the functions benefitting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease.

15.3 Finance Leases (as Lessor)

There are currently no finance leases as a lessor.

15.4 Operating Leases (as Lessor)

Rentals received under operating leases are credited to the other operating expenditure line within the Comprehensive Income and Expenditure Statement, except where the property has been classified as an investment property, in which case the income is shown in the financing and investment income and expenditure line.

16 Treatment of Overheads

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2012-13 (SERCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received.

- Corporate and Democratic Core – costs relating to the status as a democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on assets held for sale.

The two cost categories are defined in the Service Reporting Code of Practice (SERCOP) and accounted for as separate headings in the Comprehensive Income and Expenditure Statement as part of Cost of Services.

17 Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

17.1 Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits (i.e. repairs and maintenance) is charged to revenue as an expense through the Comprehensive Income and Expenditure Statement when it is incurred.

De-minimis levels have been set for capital projects at £25,000. No de-minimis level is set for individual items within capital projects.

17.2 Measurement

Assets are initially measured at cost, comprising:

- The purchase price
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

Borrowing costs incurred are not capitalised whilst assets are under construction.

Assets are then carried in the Balance Sheet using the following measurement basis:

Category	Basis of valuation
Land and Buildings (Specialised)	Depreciated Replacement Cost
Land and Buildings (Non Specialised)	Existing Use Value
Vehicles, Plant, Furniture & Equipment	Depreciated Historic Cost (as a proxy for fair value)
Assets Held for Sale	Market Value (or carrying amount if lower)
Assets Under Construction	Historic Cost

Assets included in the Balance Sheet at fair value (i.e. not valued at historic cost) are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Gains are to be credited to the relevant function line(s) in the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a function up to the amount of the original loss, adjusted for depreciation (if material) that would have been charged if the loss had not been recognised. Valuations are carried out by Mr. C. Smith BSc MRICS, Carigiet Cowen, Telford House, Riverside, Warwick Road, Carlisle CA1 2BT.

Where decreases in value are identified, they are accounted for as follows:-

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying

amount of the asset is written down against the relevant function lines(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal inception. Gains arising before that date have been consolidated into the Capital Adjustment Account. Revaluation gains and losses are not permitted to have an impact on the Police Fund. The gains and losses are therefore reversed out of the Police Fund in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

17.3 Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:-

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant function line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently by a revaluation gain, the reversal is credited to the relevant function line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation (if material) that would have been charged if the loss had not been recognised.

Impairment losses are not a charge against Council Tax. The balance on the Comprehensive Income and Expenditure Statement arising from an impairment loss is appropriated to the Capital Adjustment Account through the Movement in Reserves Statement.

The impairment reviews are carried out by Mr. C. Smith BSc MRICS, Carigiet Cowen, Telford House, Riverside, Warwick Road, Carlisle CA1 2BT.

17.4 Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land) and assets that are not yet available for use (i.e. assets under construction). Depreciation is calculated on the following bases:

- Land and Buildings - straight-line allocation over the useful life of the property as estimated by the valuer up to a maximum of 50 years
- Vehicles – straight line allocation over the estimated useful life (3 to 10 years)
- IT Equipment – straight line allocation over the estimated useful life (5 to 8 years)

No depreciation charge is made however in the year of acquisition but a full year charge is made in the year of disposal. A full year's depreciation charge is made in the year of revaluation of any asset.

Depreciation also has to be calculated on revaluation gains and is represented by the difference between depreciation calculated at current cost and depreciation calculated at historic cost. The difference between the two values is transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately (see accounting policy 17.7 below).

17.5 Disposal and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less cost to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Disposal costs are shown in other operating expenditure in the Comprehensive Income and Expenditure Statement. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). In line with Statutory Instrument 2010 No 454, disposal costs of up to 4% of the sale proceeds are financed from capital receipts. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account. The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Police Fund Balance in the Movement in Reserves Statement.

17.6 Capital Receipts

Amounts received for a disposal in excess of £10,000 are categorised as Capital Receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the underlying need to borrow (the capital financing requirement). Receipts are appropriated to the reserve from the Police Fund Balance in the Movement in Reserves Statement.

17.7 Component Accounting

Under the IFRS based code, separate recognition, depreciation and derecognition of parts of assets is required. This is often referred to as componentisation. Componentisation is a change that has to be applied prospectively which means that it only needs to be considered for any non-current assets, acquired, improved or revalued after 1 April 2010. A componentisation policy has been established whereby all land and building assets with a value in excess of £1m will be assessed to see if they contain a significant component. A significant component is defined in the policy as one which exceeds £200k in value and has a different life to the remainder of the asset. Where a component of a non-current asset is replaced or restored, the carrying amount of the old component shall be derecognised and the new component reflected in the carrying amount. Each significant component of an item of property, plant or equipment is depreciated separately. Depreciation is calculated on the balance brought forward at the start of each year. Depreciation on the componentised assets will therefore only become effective in the year following revaluation and subsequent split for componentisation.

18 Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the Police Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the police fund balance. The gains and losses are therefore reversed out of the police fund balance in the Movement in reserves Statement and posted to the Capital adjustment Account and (for any sale proceeds greater that £10,000) the Capital Receipts Reserve.

Investment assets are not generally held, however, in some circumstances where a surplus property no longer meets the strict criteria to be classified as "held for sale", it must be classified as an investment property.

19 Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the services that are provided under the PFI scheme are deemed under the PFI contract to be controlled, the asset is carried on the Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the Balance Sheet are re-valued and depreciated in the same way as property, plant and equipment.

The amounts payable to the PFI operator each year are analysed into four elements:

- Fair value of the services received during the year – debited to the relevant function in the Comprehensive Income and Expenditure Statement.
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write downs is calculated using the same principles as for a finance lease).
- Lifecycle replacement costs – a proportion of the amounts payable is posted to the Balance sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

There is currently one PFI scheme recognised on the Balance Sheet and this relates to the West Cumbria TPA HQ at Workington. Further details of the arrangement and accounting treatment can be found in note 20 (pages 67-68) of the notes to the accounts.

20 Heritage Assets

There are a small number of items that fall under the definition of heritage assets. Due to their diverse nature and lack of historical cost information specialist valuations would be required in order to obtain a reliable estimated value to include in the accounts. The cost of obtaining such valuations would outweigh the benefits gained and therefore no values are included in the balance sheet.

21 Provisions, Contingent Liabilities and Contingent Assets

21.1 Provisions

Provisions are made when an event has taken place that gives a legal or constructive obligation that probably requires settlement by transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, involvement in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate function line in the Comprehensive Income and Expenditure Statement in the year that awareness of the obligation arises, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account the relevant risks and uncertainties. Details of provisions made during the year are shown in the notes to the accounts (note 17, page 60).

When payments are eventually made, they are charged to the provision carried on the Balance Sheet. Estimated settlements are reviewed at the end of each financial year where it becomes less than probable that a transfer of economic benefits will subsequently be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant function.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the obligation is settled.

21.2 Contingent Liabilities

A contingent liability arises where an event has taken place that gives a possible obligation which will only be confirmed by the occurrence or otherwise of uncertain future events which cannot wholly be controlled. Contingent liabilities also arise in circumstances where a provision would otherwise be made but it is either not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised on the Balance Sheet but disclosed in a note to the accounts.

21.3 Contingent Assets

A contingent asset arises where an event has taken place that gives rise to a possible asset which will only be confirmed by the occurrence or otherwise of uncertain future events which cannot wholly be controlled.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

22 Reserves

Specific amounts are set aside as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the Police Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate function in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the Police Fund balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Reserves are classified in the Balance Sheet and the Movement in Reserves Statement as either 'usable' (those that can be applied to fund expenditure or reduce local taxation) and 'unusable' (those held for technical accounting purposes).

23 Material Estimation Techniques

IAS 1 Presentation of Financial Statements requires disclosure of any estimation techniques applied, such that if a different methodology had been used a material variance in the amounts disclosed would have been arrived at. The only material estimation techniques used are as follows: -

23.1 Pension Disclosure Note:-

Where the projected unit method of valuation has been applied and which is consistent with the required methodology in IAS 19. This is a valuation method in which the scheme liabilities make an allowance for projected earnings. An accrued benefits valuation method is one in which the scheme liabilities at the valuation date relate to:

(a) the benefits pensioners and deferred pensioners (i.e. individuals who have ceased as active members but are entitled to benefits payable at a later date) and their dependents, allowing where appropriate for future increases, and

(b) the accrued benefits for members in service on the valuation date. The accrued benefits are the benefits for service up to a given point in time, whether vested or not.

For 2012/13 a discount rate based on the current rate of return on a high quality corporate bond of equivalent currency and term to scheme liabilities is to be used. The actuaries for the Police and LGPS pension funds have advised that a rate of between 4.3% and 4.4% is appropriate.

23.2 Property Revaluations

All buildings are revalued on a rolling five-year programme and the estimation techniques used are based on the "open market value in existing use" or in the case of specialised police properties "depreciated replacement cost" which is consistent with proper accounting practice. The professional valuer, Mr. C. Smith of Carigiet Cowen, applied these valuation methods.

24 Collection Fund

Council Tax is collected from local taxpayers by the billing authorities (district councils). The billing authorities in England are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax. The fund's key features relevant to accounting for Council Tax in the core financial statements of the billing authorities are:

- In its capacity as a billing authority the council acts as agent; it collects and distributes Council Tax income on behalf of the major preceptors (County Council and the Police and Crime Commissioner for Cumbria) and itself.
- While the Council Tax income for the year credited to the collection fund is accrued income for the year, regulations determine when it should be released from the collection fund and transferred to the general fund of the billing authority or paid out of the collection fund to major preceptors.
- Up to 2008-09 the SORP required the Council Tax income included in the Comprehensive Income and Expenditure Statement to be that which under regulation was required to be transferred from the collection Fund to the general fund of the billing authority. The Major precepting bodies were simply required to show the precept received from the billing authority during the year.

From the year commencing 1 April 2009, the Council Tax income included in the Comprehensive Income and Expenditure Statement for the year shall be the accrued income for the year. The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the collection fund shall be taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

Since the collection of Council Tax is, in substance, an agency arrangement, cash collected by the billing authority from Council Tax debtors belongs proportionately to the billing authority and the major preceptors. There will be therefore a debtor/creditor position between the billing authorities and each major preceptor to be recognised since the net cash paid to each major preceptor in the year will not be its share of cash collected from Council Taxpayers.

The Comprehensive Income and Expenditure Statement shows the share of cash collected in relation to Council Tax for the year. A transfer has been made to the collection fund adjustment account to record the amount due to/from the six districts (billing authorities) as at the year end. The debtors and creditors contained within the balance sheet now shows the share of Council Tax debtors (less an adjustment for bad and doubtful debts), Council Tax creditors, prepayments and a recognition of the amounts owed to or from the billing authorities.

25 Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Commissioner, analysed into 'Usable Reserves' (i.e. those that can be applied to fund expenditure or reduce taxation) and other 'Unusable reserves'. The Surplus (or Deficit) on the Provision of Services line shows the true economic cost of providing the Commissioner's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the Police Fund Balance for Council Tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory Police Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Commissioner.

	Police Fund	Earmarked Reserves	Capital Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Chief Constable's Constabulary Fund	Chief Constable's Police Pension Reserve	Chief Constable's LGPS Pensions Reserve	Chief Constable's Accumulated Absences Account	Total Usable Reserves	Total Unusable Reserves	Total Reserves
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Balance at 1 April 2012	**5,149**	**9,465**	**9,460**	**0**	**3,338**	**0**	**(854,730)**	**(21,190)**	**(3,711)**	**(852,219)**	**49,143**	**(803,076)**
Movement in Reserves during 2012-13												
Surplus or (Deficit) on the provision of services	(1,059)	0	0	0	0	(37,701)	0	0	0	**(38,760)**	0	(38,760)
Other Comprehensive Income and Expenditure	0	0	0	0	0	(125,605)	0	0	0	**(125,605)**	(820)	(126,425)
Total Comprehensive Income and Expenditure	**(1,059)**	**0**	**0**	**0**	**0**	**(163,306)**	**0**	**0**	**0**	**(164,365)**	**(820)**	**(165,185)**
Adjustments between accounting basis & funding basis under regulations (**Note 4**)	3,699	0	0	1,188	427	0	0	0	0	**5,314**	(5,314)	0
Transfer to other usable resreves	0	0	0	0	0	163,306	(155,760)	(7,612)	66	**0**	0	0
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**2,640**	**0**	**0**	**1,188**	**427**	**0**	**(155,760)**	**(7,612)**	**66**	**(159,051)**	**(6,134)**	**(165,185)**
Transfers to/(from) Earmarked Reserves (**Note 5**)	(2,640)	3,240	(600)	0	0	0	0	0	0	**0**	0	0
Increase/(Decrease) in 2012-13	**0**	**3,240**	**(600)**	**1,188**	**427**	**0**	**(155,760)**	**(7,612)**	**66**	**(159,051)**	**(6,134)**	**(165,185)**
Balance at 31 March 2013	**5,149**	**12,705**	**8,860**	**1,188**	**3,765**	**0**	**(1,010,490)**	**(28,802)**	**(3,645)**	**(1,011,270)**	**43,009**	**(968,261)**

The comparative figures for 2011-12 are shown in the table below:

	Police Fund	Earmarked Reserves	Capital Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Chief Constable's Constabulary Fund	Chief Constable's Police Pension Reserve	Chief Constable's LGPS Pensions Reserve	Chief Constable's Accumulated Absences Account	Total Usable Reserves	Total Unusable Reserves	Total Reserves
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Balance at 1 April 2011	**5,149**	**11,181**	**5,684**	**0**	**3,316**	**0**	**(800,940)**	**(19,561)**	**(4,008)**	**(799,179)**	**52,992**	**(746,187)**
Movement in Reserves during 2011-12												
Surplus or (Deficit) on the provision of services	(1,492)	0	0	0	0	(42,858)	0	0	0	**(44,350)**	0	(44,350)
Other Comprehensive Income and Expenditure	0	0	0	0	0	(12,264)	0	0	0	**(12,264)**	(275)	(12,539)
Total Comprehensive Income and Expenditure	**(1,492)**	**0**	**0**	**0**	**0**	**(55,122)**	**0**	**0**	**0**	**(56,614)**	**(275)**	**(56,889)**
Adjustments between accounting basis & funding basis under regulations (**Note 4**)	3,552	0	0	0	22	0	0	0	0	**3,574**	(3,574)	0
Transfer to other usable resreves	0	0	0	0	0	55,122	(53,790)	(1,629)	297	**0**	0	0
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**2,060**	**0**	**0**	**0**	**22**	**0**	**(53,790)**	**(1,629)**	**297**	**(53,040)**	**(3,849)**	**(56,889)**
Transfers to/(from) Earmarked Reserves (**Note 5**)	(2,060)	(1,716)	3,776	0	0	0	0	0	0	**0**	0	0
Increase/(Decrease) in 2011-12	**0**	**(1,716)**	**3,776**	**0**	**22**	**0**	**(53,790)**	**(1,629)**	**297**	**(53,040)**	**(3,849)**	**(56,889)**
Balance at 31 March 2012	**5,149**	**9,465**	**9,460**	**0**	**3,338**	**0**	**(854,730)**	**(21,190)**	**(3,711)**	**(852,219)**	**49,143**	**(803,076)**

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost.

The taxation position is shown in the Movement in Reserves Statement (see page 36).

2011-12 Gross Expendture £000s	2011-12 Gross Income £000s	2011-12 Net Expendture £000s		Notes	2012-13 Gross Expendture £000s	2012-13 Gross Income £000s	2012-13 Net Expendture £000s
52,319	(3,753)	48,566	Local Policing		49,577	(3,324)	46,253
7,662	(46)	7,616	Dealing with the public		7,457	(31)	7,426
9,317	(643)	8,674	Criminal justice arrangements		9,341	(450)	8,891
7,816	(1,013)	6,803	Road policing		7,105	(939)	6,166
4,912	(785)	4,127	Specialist operations		4,201	(337)	3,864
7,504	(364)	7,140	Intelligence		7,366	(309)	7,057
13,615	(232)	13,383	Investigations		13,572	(293)	13,279
3,176	(52)	3,124	Investigative support		2,901	(40)	2,861
1,392	(860)	532	National policing		2,055	(1,833)	222
913	0	913	Corporate and democratic core		1,265	0	1,265
428	0	428	Non distributed costs		201	0	201
1,768	0	1,768	Exceptional Item - Termination Costs	33&41	1,134	0	1,134
110,822	**(7,748)**	**103,074**	**Cost Of Services**		**106,175**	**(7,556)**	**98,619**
			Other Operating Expenditure				
16	0	16	(Gain)/loss on disposal of non current assets	6d	0	(173)	(173)
10,304	(10,304)	0	Transfer to Pension Fund/Pension Top Up Grant		12,058	(12,058)	0
10,320	**(10,304)**	**16**			**12,058**	**(12,231)**	**(173)**
			Financing and Investment Income and Expenditure				
8	0	8	Interest payable on debt		2	0	2
1	0	1	Interest element of finance leases (lessee)		1	0	1
685	0	685	Interest payable on PFI unitary payments		677	0	677
50,167	0	50,167	Pensions interest costs		46,409	0	46,409
0	(3,871)	(3,871)	Expected return on pension assets		0	(3,733)	(3,733)
0	0	0	Investment property rental income	7	0	(7)	(7)
0	(244)	(244)	Investment interest income		0	(104)	(104)
50,861	**(4,115)**	**46,746**			**47,089**	**(3,844)**	**43,245**
			Taxation and Non-Specific Grant Income				
0	(1,139)	(1,139)	Recognised capital grants and contributions	35	0	(1,059)	(1,059)
0	(34,478)	(34,478)	Income from Council Tax	36	0	(35,782)	(35,782)
0	(27,596)	(27,596)	National Non Domestic Rates redistribution	35	0	(34,195)	(34,195)
0	(8,530)	(8,530)	Revenue Support Grant	35	0	(663)	(663)
0	(33,055)	(33,055)	Home Office Police Grant	35	0	(30,544)	(30,544)
0	(688)	(688)	PFI Grant	35	0	(688)	(688)
0	**(105,486)**	**(105,486)**			**0**	**(102,931)**	**(102,931)**
172,003	**(127,653)**	**44,350**	**(Surplus) or Deficit on Provision of Services**		**165,322**	**(126,562)**	**38,760**
			Surplus or Deficit on revaluation of Property, Plant and Equipment Assets				
		(83)	Revaluation gains				(4)
		335	Revaluation losses (chargeable to revaluation reserve)				607
		0	Impairment losses (chargeable to revaluation reserve)				0
		12,287	**Actuarial (gains) / losses on pension assets / liabilities** - Matching the entry to the pensions reserve	19			125,822
		12,539	**Other Comprehensive Income and Expenditure**				**126,425**
		56,889	**Total Comprehensive Income and Expenditure**				**165,185**

Further explanations of the functions included within Cost of Services are provided at note 25a. Also included in note 25c is an analysis of the Income and Expenditure by main reporting segment.

Income and Expenditure are also shown in the traditional subjective analysis format in note 25b.

Balance Sheet

The Balance Sheet shows the value as at the balance sheet date of the assets and liabilities recognised by the Commissioner. The net assets (assets less liabilities) are matched by the reserves held by the Commissioner. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Commissioner may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves relates to those that the Commissioner is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line' Adjustments between accounting basis and funding basis under regulations'.

31 March 2012 £000s		Notes	31 March 2013 £000s
	Property, Plant & Equipment	6	
56,176	Land and Buildings	6	51,203
2,274	Vehicles	6	2,289
6,285	Information Technology Equipment	6	5,332
584	Furniture, Equipment & Plant	6	525
339	Assets Under Construction (Land & Buildings)	6	120
0	Investment Properties	7	100
65,658			**59,569**
1,723	Intangible Assets - Software	9	1,261
0	Long Term Investments (Non Property)	11	0
67,381	**Long Term Assets**		**60,830**
9,584	Short Term Investments	11	7,603
181	Assets held for sale (within 1yr)	12	416
291	Inventories	13	302
8,739	Short Term Debtors	14	9,051
4,618	Cash and Cash Equivalents	15	10,680
23,413	**Current Assets**		**28,052**
(10,738)	Short Term Creditors	16	(10,189)
(67)	PFI Finance Lease Liability Due within 1 Year	11&20	(76)
(9)	Finance Lease Liability Due within 1 Year	21	(9)
(63)	PWLB Loan Due within 1 Year	11&18	0
(10,877)	**Current Liabilities**		**(10,274)**
(966)	Provisions	17	(1,300)
	Other Long Term Liabilities		
(854,730)	Pensions liability - Police	19	(1,010,490)
(21,902)	Pensions liability - LGPS	19	(29,770)
(5,382)	PFI Finance Lease Liability	11&20	(5,306)
(13)	Finance Lease Liability	21	(3)
(882,993)	**Long Term Liabilities**		**(1,046,869)**
(803,076)	**Net Assets**		**(968,261)**
	Usable reserves	22	
5,149	Police Fund	22	5,149
9,465	Earmarked reserves	5	12,705
9,460	Earmarked reserves (capital)	5	8,860
0	Capital Receipts Reserve	22	1,188
3,338	Capital Grants Unapplied	-	3,765
(854,730)	Chief Constable's Police Pension Reserve	22b	(1,010,490)
(21,190)	Chief Constable's LGPS Pension Reserve	22b	(28,802)
(3,711)	Chief Constable's Accumulated Absences Account	22c	(3,645)
(852,219)			**(1,011,270)**
	Unusable Reserves	23	
7,755	Revaluation Reserve	23a	7,095
(712)	Pensions Reserve - LGPS	23e	(968)
41,875	Capital Adjustment Account	23b	36,460
255	Collection Fund Adjustment Account	23c	447
(30)	Accumulated Absences Account	23d	(25)
49,143			**43,009**
(803,076)	**Total Reserves**		**(968,261)**

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Commissioner during the reporting period. The statement shows how the Commissioner generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Commissioner are funded by way of taxation and grant income or from the recipients of services. Investing activities represent the extent to which cash outflows have been generated from resources which are intended to contribute to the Commissioner's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing).

2011-12 £000s		Notes	2012-13 £000s
44,350	Net (Surplus) or Deficit on the provision of services		38,760
(47,085)	Adjustment to net surplus or deficit on the provision of services for non-cash movements		(46,031)
478	Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities		1,343
(2,257)	Net cash flows from Operating Activities		(5,928)
(225)	Investing Activities	24b	(274)
207	Financing Activities	24c	140
(2,275)	Net (increase) or decrease in cash and cash equivalents		(6,062)
(2,343)	Cash and cash equivalents at the beginning of the reporting period		(4,618)
(4,618)	**Cash and cash equivalents at the end of the reporting period**	15	**(10,680)**

Notes to the Accounts

1 Critical Judgements in Applying Accounting Policies

In applying the accounting policies as set out in pages 21 to 35 of this document, the Commissioner has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for policing. However, the Commissioner has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Commissioner might be impaired as a result of a need to close facilities and reduce levels of service provision.

- The Commissioner is deemed to control the services provided under the PFI agreement in relation to the West Cumbria TPA HQ at Workington. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement and the land and building (valued at £7.4m) are recognised as property, plant and equipment in the Commissioner's balance sheet.

2 Events after the Balance Sheet Date

A post balance sheet event is an event, subsequent to the date of the financial statements, and for which International Financial Reporting Standards and the code require adjustment or disclosure. The Statement of Accounts was authorised for issue by the Commissioner's Chief Finance Officer on 23 September 2013. Events taking place after this date are not reflected in the financial statements or notes. Consideration has been given to the implications in respect of the matters set out below with regards to the statement of accounts and the conclusions reached were that the accounts should be amended to reflect a non-adjusting post balance sheet event:

The decision of the Commissioner on 23rd August under 2003 and 2008 conduct regulations that there is a case to answer for misconduct in respect of the investigation and suspension of Temporary Chief Constable Stuart Hyde. The decision determined that the matter would not be referred to a misconduct hearing on the grounds of public interest and that management action would be taken. This concludes the process in respect of the Police Authority decision of 13th September, reported as a non-adjusting post balance sheet event in the 2011-12 financial statements, to suspend the Temporary Chief Constable and the investigation of allegations by South Wales Police.

The annual governance statement will be updated to reflect the development of a joint Constabulary/OPCC action plan to address points of governance raised in the investigation report into the conduct matters by South Wales Police. The recommendations within the report and a summary of the findings have been made public to aid transparency.

The decision of the Commissioner on 23rd August to suspend TCC Mr Hyde under section 38 (2) of the Police Reform and Social Responsibility Act 2011. Following that decision, and as of 30th August 2013, Mr Hyde's appointment as Temporary Chief Constable came to an end. As a consequence, and after that date, Mr Hyde reverted to Deputy Chief Constable at which point the Commissioner no longer had jurisdiction to consider the matter. Following consideration of the findings of an independent investigation conducted by the Chief Constable of South Wales Police into the issues which gave rise to the suspension of Mr Hyde, Temporary Chief Constable Mr Lawson determined that Mr Hyde should return to work in the role of Deputy Chief Constable under a management action plan to ensure that lessons were learned from the findings of the investigation.

A contingent liability has been included in the accounts to reflect a recent tribunal decision in relation to the payment of injury pensions, more detail can be found in note 33 on page 85.

3 Assumptions made about the future and other Sources of Estimation Uncertainty

The statement of Accounts contains estimated figures that are based on assumptions made by the Commissioner about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Commissioner's balance sheet as at 31 March 2013 for which there is significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Commissioner will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for buildings would increase by £26k for every year that useful lives had to be reduced.
Debtors	At 31 March 2013 the Commissioner had a balance of debtors invoices raised of £328k. A review of significant balances suggested that an impairment of doubtful debts of £2k was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £2k to set aside as an allowance.
Provisions	The Commissioner has made a provision of £593k for the settlement of insurance liabilities for a number of eventualities which are not covered by external insurers. The provision is based on an actuarial estimate but it is not yet certain that all valid claims have yet been received by the Commissioner.	An increase over the forthcoming year of 10% in either the number of claims received or the estimated average settlement would each have the effect of adding £59k to the provision needed.
	The Commissioner has made a provision of £532k in respect of terminations costs (redundancy and additional pensions) in respect of redundancies that the Constabulary was demonstrably committed to as at 31 March 2013 which will take place in 2013-14.	Throughout the period of reorganisation, termination costs have been met from the Management of Change Reserve established for this purpose, any increase in the costs of termination (over and above that in the provision) will be met from the reserve. Any increase or decrease in the actual amount paid compared to the established provision will fall to the revenue budget for 2013-14.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Provisions (continued)	The Commissioner has made a provision of £45k arising from the scheme of arrangement put in place by MMI (the Commissioner's former insurer). The provision is based on an actuarial assessment of known liabilities. The actual liability will be dependent on the level at which current claims are settled and future claims arising.	Any increase or decrease in the actual liability will need to be met from the revenue budget. The Commissioner maintains an insurance reserve which will, in part be used to meet the liability.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Two firms of consulting actuaries are engaged to provide the Commissioner with expert advice about the assumptions to be applied for both the Police Pension Scheme (Government Actuaries Department) and the Local Government Pension Scheme (Mercer Ltd).	The effects of the net pension liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption for LGPS would result in a decrease in the pension liability of £2.3m, whilst a 0.5% reduction in the rate of return in excess of earnings for Police Pensions would result in an increase in the pension liability of £25m. However, the assumptions interact in complex ways. During 2012-13, the Commissioner's actuaries advised that the net pension liability had increased by £18m as a result of estimates being corrected as a result of experience and reduced by £144m attributable to updating of the assumptions.

4 Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Commissioner in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Commissioner to meet future capital and revenue expenditure.

The figures for 2012-13 are set out in the table below:

	Police Fund £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Total Usable Reserves £000s	Total Unusable Reserves £000s	Total Reserves £000s
Adjustments primarily involving the Capital						
Reversal of items debited or credited to the						
Charges for depreciation and impairment of non-current assets	4,692	0	0	**4,692**	(4,692)	**0**
Revaluation losses on Property, Plant & Equipment	2,993	0	0	**2,993**	(2,993)	**0**
Amortisation of intangible assets	703	0	0	**703**	(703)	**0**
Capital grants and contributions applied	(122)	0	0	**(122)**	122	**0**
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CI&ES	1,204	0	0	**1,204**	(1,204)	**0**
Insertion of items not debited or credited to						
Statutory provision for the financing of capital investment	(377)	0	0	**(377)**	377	**0**
Capital expenditure charged against the General Fund	(2,972)	0	0	**(2,972)**	2,972	**0**
Adjustments primarily involving the Capital						
Capital grants and contributions unapplied credited to the CI&ES	(937)	0	937	**0**	0	**0**
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	(510)	**(510)**	510	**0**
Adjustments primarily involving the Capital						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CI&ES	(1,343)	1,343	0	**0**	0	**0**
Use of the Capital Receipts Reserve to finance new capital expenditure	0	(139)	0	**(139)**	139	**0**
Contribution from the Capital Receipts Reserve towards administration costs of non current asset disposals	16	(16)	0	**0**	0	**0**
Adjustments primarily involving the Pensions						
Reversal of items relating to retirement benefits debited or credited to the CI&ES **(Note 18)**	136	0	0	**136**	(136)	**0**
Employer's pension contributions and direct payments to pensioners payable in the year	(97)	0	0	**(97)**	97	**0**
Adjustments primarily involving the						
Amount by which council tax income credited to the CI&ES is different from council tax in the year in accordance with statutory requirements	(192)	0	0	**(192)**	192	**0**
Adjustments primarily involving the						
Amount by which officer remuneration charged to the CI&ES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(5)	0	0	**(5)**	5	**0**
Total Adjustments	**3,699**	**1,188**	**427**	**5,314**	**(5,314)**	**0**

Notes to the Accounts

The comparative figures for 2011-12 are set out in the below:

	Police Fund £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Total Usable Reserves £000s	Total Unusable Reserves £000s	Total Reserves £000s
Adjustments primarily involving the Capital						
Reversal of items debited or credited to the						
Charges for depreciation and impairment of non-current assets	4,586	0	0	**4,586**	(4,586)	**0**
Revaluation losses on Property, Plant & Equipment	1,427	0	0	**1,427**	(1,427)	**0**
Amortisation of intangible assets	722	0	0	**722**	(722)	**0**
Capital grants and contributions applied	(346)	0	0	**(346)**	346	**0**
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CI&ES	542	0	0	**542**	(542)	**0**
Insertion of items not debited or credited to		0		**0**	0	
Statutory provision for the financing of capital investment	(337)	0	0	**(337)**	337	**0**
Capital expenditure charged against the General Fund	(1,701)	0	0	**(1,701)**	1,701	**0**
Adjustments primarily involving the Capital		0		**0**	0	
Capital grants and contributions unapplied credited to the CI&ES	(793)	0	793	**0**	0	**0**
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	(771)	**(771)**	771	**0**
Adjustments primarily involving the Capital		0		**0**	0	
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CI&ES	(478)	478	0	**0**	0	**0**
Use of the Capital Receipts Reserve to finance new capital expenditure	0	(471)	0	**(471)**	471	**0**
Contribution from the Capital Receipts Reserve towards administration costs of non current asset disposals	7	(7)	0	**0**	0	**0**
Adjustments primarily involving the Pensions				**0**	0	
Reversal of items relating to retirement benefits debited or credited to the CI&ES **(Note 18)**	140	0	0	**140**	(140)	**0**
Employer's pension contributions and direct payments to pensioners payable in the year	(108)	0	0	**(108)**	108	**0**
Adjustments primarily involving the				**0**	0	
Amount by which council tax income credited to the CI&ES is different from council tax in the year in accordance with statutory requirements	(87)	0	0	**(87)**	87	**0**
Adjustments primarily involving the				**0**	0	
Amount by which officer remuneration charged to the CI&ES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(22)	0	0	**(22)**	22	**0**
Total Adjustments	**3,552**	**0**	**22**	**3,574**	**(3,574)**	**0**

5 Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the Police Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts credited to earmarked reserves to meet Police Fund expenditure in 2012-13 (and for 2011-12).

	Balance at 01-04-11 £000s	Transfers Out 2011-12 £000s	Transfers In 2011-12 £000s	Balance at 31-03-12 £000s	Reserves Combined 2012-13 £000s	Transfers Out 2012-13 £000s	Transfers In 2012-13 £000s	Balance at 31-03-13 £000s
Insurance	**788**	(242)	0	**546**	0	(103)	0	**443**
Management of Change	**3,079**	(1,452)	0	**1,627**	0	(1,117)	1,500	**2,010**
Operational Contingency	**150**	0	50	**200**	0	0	50	**250**
PFI Reserve	**1,080**	0	240	**1,320**	0	0	240	**1,560**
PFI Lifecycle Replacement 1	**245**	(151)	14	**108**	0	(11)	0	**97**
PFI Lifecycle Replacement 2	**0**	0	207	**207**	0	0	50	**257**
Police and Crime Commissioner	**150**	0	0	**150**	0	0	0	**150**
Police and Crime Commissioner Transition	**100**	(1)	109	**208**	0	(109)	120	**219**
Equalisation Reserve	**0**	0	1,422	**1,422**	(1,422)	0	0	**0**
Investment Fund	**0**	0	0	**0**	3,337	0	2,943	**6,280**
Support for 2011-12 Revenue Account	**2,357**	(2,357)	0	**0**	0	0	0	**0**
Airwave	**310**	(60)	0	**250**	(220)	(30)	0	**0**
Chief Constables Reserve	**289**	0	0	**289**	(289)	0	0	**0**
Future Pensions Liability	**153**	0	0	**153**	(153)	0	0	**0**
Health & Safety	**138**	0	0	**138**	(138)	0	0	**0**
Incentivisation Harmonisation	**31**	0	0	**31**	(31)	0	0	**0**
Mobile Data Project	**300**	0	0	**300**	0	(89)	0	**211**
Police National Database	**431**	(48)	0	**383**	(370)	0	0	**13**
Public Holiday	**139**	(75)	0	**64**	0	0	0	**64**
Risk Management Initiatives	**175**	0	0	**175**	(175)	0	0	**0**
Budget Holders Funds	**1,266**	(70)	698	**1,894**	(539)	(463)	259	**1,151**
Total Revenue Reserves	**11,181**	**(4,456)**	**2,740**	**9,465**	**0**	**(1,922)**	**5,162**	**12,705**
Capital Reserve	**5,684**	**0**	**3,776**	**9,460**	**0**	**(600)**	**0**	**8,860**

During 2012-13 a review of reserves was carried out and a number of smaller reserves were combined into a new reserve to be known as the "investment Fund". Revenue budget underspends from 2012-13 have been added to this reserve at the year end. This reserve will be used in 2013-14 (and future years) to invest in initiatives such as technology, equipment and training to meet the Commissioner's priorities and to increase the productivity of the Constabulary. A narrative description of the purpose of each of the earmarked reserves is provided below for information:

- Insurance – to offset any insurance claims not specifically detailed in the insurance provision.
- Management of Change – to help manage significant organisational change.
- Operational Contingency – to provide resources both to back up the annual operational contingency and, in addition, to assist in funding unexpected major events, if necessary.
- PFI Reserves – to equalise the impact on the Comprehensive Income and Expenditure Statement of changing levels of grant income and charges over the period of the contract
- Police and Crime Commissioner – to provide a dedicated reserve for the Commissioner's responsibilities.
- Police and Crime Commissioner Transition – to help manage the potential costs associated with the transition to Police Commissioners.
- Investment Fund – as outlined above.
- Mobile Data – to support the roll out in relation to the use, benefits and efficiencies offered by the use of mobile data.
- Police National Database - to offset the revenue costs associated with the implementation of the Police National Database system.
- Public Holiday - to smooth peaks in overtime expenditure due when bank holidays fall across financial years.
- Budget Holders Funds –to support a variety of locally managed initiatives arising from unspent balances in previous years, granted under the scheme of devolved resource management.
- Capital Reserve – direct contributions from revenue to support capital projects with in the capital programme.

6 Property, Plant and Equipment

The table below summarises the movements in Property, Plant and Equipment during the year:

	Land and Buildings £'000	Vehicles £'000	IT and Technology £'000	Furniture Equipment & Plant £'000	Assets Under Construction £'000	Total Property, Plant & Equipment £'000	PFI Assets Included in P.P.E. £'000
Cost or Valuation							
At 1 April 2012	57,354	7,810	20,278	2,805	339	**88,586**	7,576
Adjustment to Opening Balance	0	0	0	0	0	**0**	0
Additions	310	988	1,302	87	796	**3,483**	0
Enhancements	155	0	0	0	0	**155**	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(1,061)	0	0	0	0	**(1,061)**	0
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(2,237)	0	0	0	0	**(2,237)**	0
Derecognition - Disposals	0	(616)	0	0	0	**(616)**	0
Derecognition - Other	0	0	0	0	0	**0**	0
Assets reclassified (to)/from Held for Sale	(2,500)	0	0	0	0	**(2,500)**	0
Other movements in cost or valuation	1,015	0	0	0	(1,015)	**0**	0
At 31 March 2013	**53,036**	**8,182**	**21,580**	**2,892**	**120**	**85,810**	**7,576**
Accumulated Depreciation & Impairment							
At 1 April 2012	(1,178)	(5,536)	(13,993)	(2,221)	0	**(22,928)**	(242)
Adjustment to Opening Balance	0	0	0	0	0	**0**	0
Depreciation Charge	(1,318)	(973)	(2,255)	(146)	0	**(4,692)**	(163)
Depreciation on Disposals	0	616	0	0	0	**616**	0
Depreciation written out to the Revaluation Reserve	458	0	0	0	0	**458**	0
Depreciation written out to the Surplus/Deficit on the Provision of Services	132	0	0	0	0	**132**	0
Assets reclassified (to)/from Held for Sale	73	0	0	0	0	**73**	0
Depreciation as at 31 March 2013	**(1,833)**	**(5,893)**	**(16,248)**	**(2,367)**	**0**	**(26,341)**	**(405)**
Net Book Value							
At 31 March 2013	**51,203**	**2,289**	**5,332**	**525**	**120**	**59,469**	**7,171**
At 31 March 2012	**56,176**	**2,274**	**6,285**	**584**	**339**	**65,658**	**7,334**

The comparative figures for 2011-12 are set out in the below:

	Land and Buildings £'000	Vehicles £'000	IT and Technology £'000	Furniture Equipment & Plant £'000	Assets Under Construction £'000	Total Property, Plant & Equipment £'000	PFI Assets Included in P.P.E. £'000
Cost or Valuation							
At 1 April 2011	56,882	7,519	18,520	2,759	2,363	**88,043**	7,576
Adjustment to Opening Balance	(5)	0	0	0	0	**(5)**	0
Additions	0	853	1,874	46	142	**2,915**	0
Enhancements	83	0	0	0	1,070	**1,153**	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(332)	(481)	0	0	0	**(813)**	0
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(1,855)	0	0	0	0	**(1,855)**	0
Derecognition - Disposals	0	(81)	(116)	0	0	**(197)**	0
Derecognition - Other	0	0	0	0	0	**0**	0
Assets reclassified (to)/from Held for Sale	(655)	0	0	0	0	**(655)**	0
Other movements in cost or valuation	3,236	0	0	0	(3,236)	**0**	0
At 31 March 2012	**57,354**	**7,810**	**20,278**	**2,805**	**339**	**88,586**	**7,576**
Accumulated Depreciation & Impairment							
At 1 April 2011	(622)	(5,211)	(11,798)	(1,995)	0	**(19,626)**	(79)
Adjustment to Opening Balance	5	0	0	0	0	**5**	0
Depreciation Charge	(1,162)	(887)	(2,311)	(226)	0	**(4,586)**	(163)
Depreciation on Disposals	0	0	116	0	0	**116**	0
Depreciation written out to the Revaluation Reserve	0	562	0	0	0	**562**	0
Depreciation written out to the Surplus/Deficit on the Provision of Services	592	0	0	0	0	**592**	0
Assets reclassified (to)/from Held for Sale	9	0	0	0	0	**9**	0
Depreciation as at 31 March 2012	**(1,178)**	**(5,536)**	**(13,993)**	**(2,221)**	**0**	**(22,928)**	**(242)**
Net Book Value							
At 31 March 2012	**56,176**	**2,274**	**6,285**	**584**	**339**	**65,658**	**7,334**
At 31 March 2011	**56,260**	**2,308**	**6,722**	**764**	**2,363**	**68,417**	**7,497**

6.a Valuations Rolling Programme

The Commissioner carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. Valuations of land and buildings are carried out on behalf of the Commissioner by Mr. C. Smith Bsc MRICS of Carigiet Cowen and were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors (RICS). Valuations of vehicles, plant, furniture and equipment are based on depreciated historic cost as a proxy for fair value. The basis of the valuations is set out in the statement of accounting policies on page 29. The table below sets out details of the land and buildings valuations undertaken over the five year rolling programme.

	Land and Buildings £'000	Vehicles £'000	IT and Technology £'000	Furniture Equipment & Plant £'000	Assets Under Construction £'000	Total Property, Plant & Equipment £'000
Carried at Historical Cost	201	8,182	21,580	2,663	120	**32,746**
Valued at Fair Value as at:						
- 31 March 2013	8,050	0	0	0	0	**8,050**
- 31 March 2012	6,536	0	0	229	0	**6,765**
- 31 March 2011	37,687	0	0	0	0	**37,687**
- 31 March 2010	562	0	0	0	0	**562**
Total Cost or Valuation	**53,036**	**8,182**	**21,580**	**2,892**	**120**	**85,810**

6.b Impairment Review

The Authority's professional valuer, Mr. C. Smith of Carigiet Cowen, has made an assessment of the possible effects of material impairment to land and buildings during the financial year. His assessment was based on a number of specific criteria, which, in his opinion, could affect the valuation of assets. The outcome of the assessment process is that the valuer has concluded that there are no impairments.

6.c Property, Plant and Equipment in the Ownership of the Police and Crime Commissioner

A brief analysis of the Commissioner's principal assets as at 31 March 2013 is set out below:

	As at 31 March 2012 Number	2013 Number
HQ, TPA HQ & Larger Police Stations	8	9
Other Police Stations	18	13
Police Houses and other Properties	19	16
Surplus Properties Held for Sale	2	3
Vehicles	387	387
Total	**434**	**428**

6.d Gain / Loss on Sale of Property, Plant and Equipment

The table below analyses the (gain)/loss on sale of property, plant and equipment for the year ended 31 March 2013.

	Net Book Value £'000	Costs of Sale £'000	Proceeds of Sale £'000	(Gain) / Loss £'000
Land and Buildings	1,205	15	(1,323)	**(103)**
Vehicles	0	18	(88)	**(70)**
Total	**1,205**	**33**	**(1,411)**	**(173)**

The comparative figures for 2011-12 are set out in the below:

	Net Book Value £'000	Costs of Sale £'000	Proceeds of Sale £'000	(Gain) / Loss £'000
Land and Buildings	461	7	(460)	**8**
Vehicles	81	7	(80)	**8**
Total	**542**	**14**	**(540)**	**16**

Note in 2012-13 £68k (£62k in 2011-12) of receipts from proceeds of sale included in the above table were individually below the £10k threshold for recognition as capital receipts and have therefore been treated as revenue income. This explains why the capital receipts recorded in note 4 show £1,343k (£478k in 2011-12) rather than £1,411k (£540k in 2011-12) as above.

6.e Effects of Changes in Estimates

There have been no material changes in estimates in the 2012-13 accounts.

7 Investment Properties

An investment property is generally one which is held solely to earn rentals or for capital appreciation or both, rather than for: use in the production or supply of goods and services or for administration purposes or, sale in the ordinary course of operations. The Commissioner will generally seek to dispose of surplus premises when they cease to be used for operational purposes. However, there are strict criteria that govern what premises can be included in the balance sheet as Property, Plant and Equipment and what can be classified as "held for sale". Where a premises has been identified as surplus and does not meet the definition to be classified as held for sale it is categorised as an investment property.

The following table summarises the movement in the fair value of investment properties over the year.

	As at 31 March 2012 £'000	2013 £'000
Balance at Start of the Year	0	0
Transfers (to)/from Held for Sale	0	118
Revaluation Gains/(Losses)	0	(18)
Balance at end of the year	**0**	**100**

The following items of income and expense have been accounted for in the Financing and Investment Income line of the Comprehensive Income and Expenditure Statement.

	2011-12 £'000	2012-13 £'000
Rental Income from Investment Property	0	(7)
Direct Operating Expenses arising from investment property	0	0
Net gain/(loss)	**0**	**(7)**

8 Capital Commitments

The Commissioner has outstanding contractual commitments amounting to £235k in respect of a number of schemes from the 2012-13 capital programme (£744k in 2011-12). The budget outturn report for 2012-13 was presented to the Commissioner's Executive Board on 4 June 2013.

The outstanding capital commitments are analysed below by scheme:

Outstanding Capital Commitments	As at 31 March 2012 £'000	As at 31 March 2013 £'000
STORM (Command & Control System)	26	26
Allerdale Rural Deployment Centre	671	0
Finance and Business Systems Upgrade Project	47	0
Integrated Command and Control System	0	195
Vehicle Replacement	0	14
Total	**744**	**235**

9 Intangible Assets

The Commissioner accounts for its computer software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item within Property, Plant and Equipment. The intangible assets include computer software development and acquisitions. All software is given a finite useful life (5 years), based on assessments of the period that the software is expected to be of use to the Commissioner. The carrying amount of intangible assets is amortised on a straight line basis and is charged to the Comprehensive Income and Expenditure Statement.

A summary of the movements in intangible assets during the year and the position as at 31 March 2013 (with comparatives for 2011-12) is set out in the table below:

	2011-12 £'000	2012-13 £'000
Balance at start of year		
- Gross carrying amount	4,666	4,756
- Accumulated amortisation	(2,315)	(3,033)
Net carrying amount at start of year	**2,351**	**1,723**
Additions	94	241
Disposals	(4)	0
Amortisations for the period	(722)	(703)
Amortisation adjustment re disposals	4	0
Net carrying amount at end of year	**1,723**	**1,261**
Comprising		
- Gross carrying amount	4,756	4,997
- Accumulated amortisation	(3,033)	(3,736)
	1,723	**1,261**

The amortisation of £703k charged to revenue in 2012-13 was initially charged to the IT Services department and then allocated across the services on a head count basis. The table below shows the amount of intangible asset amortisation attributable to each service heading:

	2011-12 £'000	2012-13 £'000
Local Policing	359	317
Dealing with the Public	81	76
Criminal Justice Arrangements	86	79
Road Policing	54	46
Specialist Operations	26	22
Intelligence	47	48
Specialist Investigations	44	89
Investigative Support	17	18
National Policing	8	8
	722	**703**

10 Heritage Assets

The code requires Heritage Assets, which are maintained principally for their contribution to knowledge or culture, to be separately disclosed.

The Commissioner holds a small number of historical ephemera relating to policing in Cumbria which would fall under the definition of heritage assets including: a ceremonial chair, four antique firearms, several trophies, a commemorative plaque, two ceremonial swords and four portraits.

In the opinion of the Commissioner the assets do not have a material intrinsic value in the context of the Commissioner's accounts. Due to their historical origin no cost of valuation information is available and because of their diverse nature specialist valuations would be required to obtain a reliable estimate of their value. The Commissioner is of the opinion that the costs of obtaining the valuations for these items would be disproportionate in terms of the benefits gained and therefore no values are included in the Commissioner's balance sheet.

11 Financial Instruments

11.a Categories of Financial Instrument

The following categories of financial instrument are carried in the balance sheet.

	Long Term		Current	
	31 March 2012 £'000	31 March 2013 £'000	31 March 2012 £'000	31 March 2013 £'000
Financial Assets				
Investments				
Loans and receivables	0	0	9,584	7,603
Debtors				
Financial assets carried at contract amounts	0	0	4,063	4,603
Total Financial Assets	**0**	**0**	**13,647**	**12,206**
Financial Liabilities				
Borrowings				
Financial liabilities at amortised cost	0	0	(63)	0
Creditors				
Financial liabilities carried at contract amounts	0	0	(7,423)	(7,431)
Other Long-term Liability (PFI/Finance Lease)				
PFI & Finance Lease Liabilities	(5,395)	(5,309)	(76)	(85)
Total Financial Liabilities	**(5,395)**	**(5,309)**	**(7,562)**	**(7,516)**

11.b Gains and Losses on Financial Instruments

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in 2012-13 relating to financial instruments are made up as follows:

	2011-12				2012-13			
	Financial Liabilities Held at amorised cost	Financial Liabilities PFI/Finance Lease	Financial Assets Loans & Receivables	Total	Financial Liabilities Held at amorised cost	Financial Liabilities PFI/Finance Lease	Financial Assets Loans & Receivables	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Interest Expense	8	686	0	**694**	2	678	0	**680**
Impairment Losses (Bad Debts Provision Increase)	0	0	0	**0**	0	0	0	**0**
Total Expenses in (Surplus) or Deficit on the Provision of Services	**8**	**686**	**0**	**694**	**2**	**678**	**0**	**680**
Interest Income	0	0	(244)	**(244)**	0	0	(104)	**(104)**
Impairment Gain (Bad Debts Provision Reduction)	0	0	0	**0**	(1)	0	0	**(1)**
Total Income in (Surplus) or Deficit on the Provision of Services	**0**	**0**	**(244)**	**(244)**	**(1)**	**0**	**(104)**	**(105)**
Net (Gain)/Loss for the Year	**8**	**686**	**(244)**	**450**	**1**	**678**	**(104)**	**575**

11.c Fair value of Assets and Liabilities Carried at Amortised Cost

Financial liabilities and assets represented by loans and receivables and long term debtors and creditors are carried in the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Estimated interest rates at 31 March 2013 of 5% for loans from the PWLB.
- No early repayment or impairment is recognised
- Where an instrument will mature in the next 12 months, carrying amount is assumed to be approximate to fair value
- The fair value of trade and other receivables is taken to be the invoiced amount.

The fair values calculated are as follows:

	31 March 2012		31 March 2013	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Financial Liabilities				
Borrowings	(63)	(64)	0	0
Creditors	(7,423)	(7,423)	(7,431)	(7,431)
Other Long-term Liabilities (PFI/Finance Lease)	(5,471)	(5,471)	(5,394)	(5,394)
	(12,957)	**(12,958)**	**(12,825)**	**(12,825)**
Financial Assets				
Investments	9,584	9,584	7,603	7,603
Debtors	4,063	4,063	4,603	4,603
	13,647	**13,647**	**12,206**	**12,206**

For financial assets the fair value is shown to be the same as the carrying amount as the investments are for a short period and there is no option to vary the amount or timing of repayment.

11.d Disclosure of the Nature and Extent of Risks Arising from Financial Instruments

The Commissioner's activities expose it to a variety of financial risks:

- Credit Risk – the possibility that other parties might fail to pay amounts due to the Commissioner.
- Liquidity Risk – the possibility that the Commissioner might not have funds available to meet its commitments to make payments.
- Market risk – the possibility that financial loss might arise for the Commissioner as a result of changes in such measures as interest rates and stock market movements.

The Commissioner's annual Treasury Management Strategy focuses on these risks and seeks to minimise potential adverse effects on the resources available to fund services. The Commissioner provides written policies within its Treasury Management Strategy covering interest rate risk, credit risk and the investment of surplus cash balances. A copy of the current Treasury Management Strategy Statement can be found on the Police and Crime Commissioner's website at: http://www.cumbria-pcc.gov.uk/media/9110/PCC%2022-02-13%20Treasury%20Management%20Strategy%20Statement.pdf

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Commissioner's customers.

This risk is minimised through the application of policies set out in the annual Treasury Management Strategy Statement (TMSS), which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by Fitch and Moody's ratings services. The annual TMSS (approved by the Commissioner in February 2012), also imposes a maximum sum to be invested with a financial institution located within each category.

The credit criteria as set out in the 2012-13 TMSS in respect of financial assets held by the Commissioner are detailed below:

Financial Asset Category	Minimum Criteria	Maximum Investment
Deposits with major UK and non UK Banks and Building Societies	Short Term: F1/P1 Long Term: A+/A1 Support: 3	The lower of £5m (per institution or group) or 15% of the portfolio at the time the investment is placed.
Deposits with Money Market Funds	Long Term: AAA	£2m per fund (or 10% of portfolio). Maximum of all deposits £15m.
Deposits with Other Local Authorities	Not credit rated but are legally required to set a balanced budget.	£2m per authority. Maximum of all deposits £6m.
Deposits with Debt Management Agency Deposit Facility	Not credit rated but deposits have the best possible credit through the HM Government guarantee	No limit.

In February 2013, the annual update to the TMSS was agreed by the Commissioner. At which point, the minimum investment criteria outlined in the table above was reduced from institutions with a minimum credit rating of A+ to A-. The change was largely as a result of improved stability in economic conditions and the fact that most banks have had their credit ratings downgraded which meant that they otherwise would have fallen below the Commissioner's minimum investment criteria. The agreed revised strategy for 2013-14 was implemented with immediate effect for the remainder of 2012-13.

The Commissioner's maximum exposure to credit risk in relation to its investments in banks, building societies and other Local Authority's of £8m at the balance sheet date cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Commissioner's deposits, but there was no evidence at the 31 March 2013 that this was likely to happen.

The following analysis summarises the Commissioner's potential maximum exposure to credit risk, on other financial assets, based on experience of default and uncollectability over the last five financial years, adjusted to reflect current market conditions.

	Amount at 31.03.13 £'000	Historical Experience of Default %	Historical Experience Adjusted for Market Conditions at 31.03.13	Estimated maximum exposure to default and uncollectability £'000	Comparative Estimated maximum exposure at 31.03.12 £'000
Customers - Operational Debtors	1,363	0.04%	0.15%	2	2

The Authority does not generally allow credit for customers. At the 31 March 2013, £74k of the £1,363k balance of operational debt was past the due date for payment, however, the Commissioner has no reason to believe that these sums will not ultimately be collected and has therefore left the bad debt provision as at 31 March 2013 largely unchanged. The past due amount can be analysed by age as follows:

	As at 31 March	
	2012	2013
	£'000	£'000
Total Operational Debtors	**1,562**	**1,363**
Aged Debt past its due date		
31 to 60 Days	40	44
61 to 90 Days	14	5
91 to 120 Days	4	3
121 Days Plus	10	22
	68	**74**

Liquidity Risk

As the Commissioner has ready access to borrowings from the PWLB and had at 31 March 2013 no actual external debt as it has financed a number of recent projects through internal borrowing, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. A more pertinent risk is that the Commissioner will be required to replenish a significant proportion of its internal borrowings at a time of unfavourable interest rates. At the balance sheet date the Commissioner is confident that it has adequate working capital principally as a result of its significant reserves to mitigate this risk. Nevertheless, prevailing money market rates are regularly monitored with a view to ensuring that long term debt financing decisions are made at the optimum time.

The maturity analysis of loans and borrowings within financial liabilities is as follows:

Analysis of PWLB Loan by Maturity	As at 31 March 2012 £'000	2012 %	As at 31 March 2013 £'000	2013 %
Repayable In One Year	63	100%	0	0%
Between One and Two Years	0	0%	0	0%
Between Two and Five Years	0	0%	0	0%
Between Five and Ten Years	0	0%	0	0%
	63	**100%**	**0**	**0%**

All operational liabilities are due to be repaid within one year.

Market Risk

The Commissioner is exposed to some risk due to movements in interest rates on its loans and investments. These potential risks are:

- An increase in interest rates will result in a fall in the fair value of borrowings and investments.
- A decrease in interest rates will result in a rise in the fair value of borrowings and investments.
- The value of interest received from investments will rise or fall depending on increases and decreases in interest rates and will impact on the Comprehensive Income and Expenditure Statement.

As all of the Commissioner's existing borrowings and investments have been placed at fixed rates, this risk has to a large extent been minimised.

Borrowings and investments are carried in the Balance Sheet at fair value, so nominal gains and losses on fixed rate financial instruments have no impact on the Comprehensive Income and Expenditure Statement.

The Commissioner carries out its borrowing and investment function within parameters set out in its Treasury Management Strategy, which assesses interest rate exposure to feed into the budget process. Forecasts are updated regularly throughout the year, which allows any significant changes to interest rates to be reflected in current budget projections.

The Treasury Management Strategy also advises on the limits for new variable and fixed–rate borrowing for the year. No new external borrowing was undertaken in 2012-13.

12 Assets Held for Sale

Assets held for sale relate to land and buildings assets that are available for immediate sale in their present condition subject to terms that are usual and customary for sales of such assets. The assets are being actively marketed for a sale at a price that is reasonable in relation to its current fair value. The sale is expected to qualify for recognition as a completed sale within one year from the date of classification.

	As at 31 March 2012 £'000	2013 £'000
Balance outstanding at start of year	160	181
Newly classified as held for sale	646	2,427
Revaluation gains/(losses)	(176)	(942)
Reversal of Impairment losses	12	72
Assets sold	(461)	(1,204)
De-classified as held for sale	**0**	(118)
Balance outstanding at end of year	**181**	**416**

13 Inventories

A summary of the items held at 31 March 2013 is set out in the table below:

	As at 31 March 2012 £'000	2013 £'000
Balance outstanding at start of year	297	291
Adjustments to opening balance	0	0
Purchases	610	473
Issues (recognised as an expense)	(616)	(461)
Written off balances	0	(1)
Balance outstanding at end of year	**291**	**302**
Analysis by Inventory Type		
Uniforms	160	178
Vehicle Equipment	49	53
Forensic and Photographic Materials	22	23
Admin Equipment and Materials	37	28
Operational Equipment	23	20
Total	**291**	**302**

14 Debtors

A breakdown of the amounts owing to the Commissioner as at 31 March 2013 is set out in the table below:

	As at 31 March 2012 Re-stated £'000	2013 £'000
Central Government Bodies	3,637	4,302
Other Police / Local Authorities	384	532
NHS Bodies	55	69
Public Corporations & Trading Funds	0	4
Other Entities and Individuals (*)	5,529	5,007
Impairment (Provision for Bad Debts)	(866)	(863)
Other Entities and Individuals (Net of Impairment)	**4,663**	**4,144**
Total Debtors	**8,739**	**9,051**

* The amounts in respect of other entities and individuals are analysed further in the table below for information.

	As at 31 March 2012 Re-stated £'000	2013 £'000
*** Analysis of Other Entities and Individuals**		
Police Pensioners Prepayment	1,807	1,906
Goods and Services	586	418
Prepayments/Payments In Advance	1,296	877
Employees (accumulating compensating absences)	133	103
Local Taxpayers	1,707	1,703
	5,529	**5,007**
Less - Provision for Bad Debts (Goods & Services)	(2)	(2)
Less - Provision for Bad Debts (Local Taxpayers)	(864)	(861)
	(866)	**(863)**
Other Entities and Individuals (Net of Impairment)	**4,663**	**4,144**

The figures in the above tables in relation to the 2011-12 comparators have been re-stated as a result of a change in the classification of debtors from one category to another. The overall totals shown on the balance sheet remain unchanged. A further explanation in relation to these changes is provided in the prior Period Adjustment note (note 42 on page 94).

15 Cash and Cash Equivalents

The balance of cash and cash equivalents is made up of the following elements:

	As at 31 March 2012 £'000	2013 £'000
Bank current accounts	99	21
Short-term deposit with bank (overnight)	119	2,555
Investments in Money Market Funds (available on demand)	4,400	8,104
Total	**4,618**	**10,680**

16 Short-term Creditors

An analysis of the amounts owed by the Commissioner as at 31 March 2013 is set out in the table below:

	As at 31 March 2012 Re-stated £'000	2013 £'000
Central Government Bodies	(2,037)	(1,913)
Other Police / Local Authorities	(604)	(897)
NHS Bodies	(1)	(3)
Public Corporations & Trading Funds	(33)	0
Other Entities and Individuals (*)	(8,063)	(7,376)
Total Creditors	**(10,738)**	**(10,189)**

* The amounts in respect of other entities and individuals are analysed further in the table below for information.

	As at 31 March 2012 Re-stated £'000	2013 £'000
*** Analysis of Other Entities and Individuals**		
Goods and Services	(2,907)	(2,731)
Receipts In Advance	(678)	(267)
Employees (accumulating compensating absences)	(3,874)	(3,773)
Local Taxpayers	(604)	(605)
Other Entities and Individuals	**(8,063)**	**(7,376)**

The figures in the above tables in relation to the 2011-12 comparators have been re-stated as a result of a change in the classification of creditors from one category to another. The overall totals shown on the balance sheet remain unchanged. A further explanation in relation to these changes is provided in the prior Period Adjustment note (note 42 on page 94).

17 Provisions

The Commissioner is able to maintain provisions to meet expected future liabilities. The Code of Practice on Local Authority Accounting advises that the value of any provisions be charged to the appropriate part of the Comprehensive Income and Expenditure Statement in anticipation of the liability having to be met in the future. The classification of provisions is consistent with the Code of Practice.

A brief description of the purpose of the individual provisions as at 31 March 2013 is provided below:

Insurance liabilities – this provision has been established to meet a number of eventualities which are not covered by external insurers. In particular, liability risks up to £25k (per event) are retained by the Commissioner and met internally.

Termination Payments - this employee related provision relates to a liability that exists in respect of termination benefits as a result of a decision made during 2012-13 for which the actual payments will fall into 2013-14.

Legal Claims – this provision has been established to cover the potential costs relating to a number of legal claims that are currently ongoing.

MMI Insurance Claims – this provision has been established to meet the potential costs arising from the scheme of arrangement put in place by the Commissioner's former insurer Municipal Mutual Insurance Ltd (see note 37 contingent liabilities for further details).

The table below shows the movements during the year on each of the provisions and the position as at 31 March 2013.

Provisions	Balance as at 01-04-12 £'000	Provisions Made 2012-13 £'000	Amounts Used in 2012-13 £'000	Balance as at 31-03-13 £'000
Insurance Liabilities	(593)	(205)	205	**(593)**
Termination Payments	(232)	(532)	232	**(532)**
Pay Awards	(141)	0	141	**0**
Legal Claims	0	(130)	0	**(130)**
MMI Insurance Claims	0	(45)	0	**(45)**
Total Provisions	**(966)**	**(912)**	**578**	**(1,300)**

The comparative information for year ended 31 March 2012 is as follows:

Provisions	Balance as at 01-04-11 £'000	Provisions Made 2011-12 £'000	Amounts Used in 2011-12 £'000	Balance as at 31-03-12 £'000
Insurance Liabilities	(363)	(344)	114	**(593)**
Termination Payments	0	(232)	0	**(232)**
Pay Awards	0	(141)	0	**(141)**
Total Provisions	**(363)**	**(717)**	**114**	**(966)**

18 Long-term Borrowing

During 2012-13 the Commissioner repaid all outstanding debt with the Public Works Loans Board (PWLB).

Analysis of Loan by Maturity	As at 31 March 2012 £'000	2013 £'000
Repayable In One Year	(63)	0
Between One and Two Years	0	0
Between Two and Five Years	0	0
Between Five and Ten Years	0	0
	(63)	**0**
Transferred to Current Liabilities	63	0
	0	**0**

19 Pensions

19.a Pension Schemes

As part of the terms and conditions of employment of its officers and other employees, the Commissioner offers retirement benefits. Although these benefits will not actually be payable until employees retire, under IAS 19 the Commissioner must recognise its future commitment to make payments, which need to be disclosed at the time that employees earn their future entitlement. In addition, the financial statements should contain adequate disclosure of the costs of providing benefits and related gains/losses.

The Commissioner participates in two pension schemes:

- The Local Government Pension Scheme (LGPS) for Police Staff employees, administered by Cumbria County Council (outsourced to Lancashire County Council) – this is a funded defined benefit scheme, meaning that the Commissioner and employees pay contributions into a fund. Contributions are calculated at a level intended to balance the pensions liabilities with investment assets over the long term. In 2012-13 the Commissioner made a contribution of 11.1% of pensionable pay supplemented by a contribution to past service costs of £763k. The contribution rate was last reviewed in March 2010 with revised rates applicable from April 2011.

- The Police Pension Scheme is an unfunded scheme (i.e. there are no investment assets built up to meet pension liabilities and cash has to be generated to meet actual pensions payments as they fall due). The Commissioner and employees pay contributions into a separate pensions fund account administered by the Commissioner from which on-going pensions liabilities are met. At the year-end any surplus or deficit on the pensions fund account is paid to or met by the Commissioner who then repay or are reimbursed by the Home Office. (2012-13 contribution rates for employers were 24.2% of pensionable pay and was last reviewed in March 2007).

The cost of retirement benefits is recognised in the Cost of Services within the Comprehensive Income and Expenditure Statement when employees earn them, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against Council Tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Police Fund in the Movement in Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement during the year:

	LGPS Funded Benefits		LGPS Unfunded Benefits		Police Scheme Old Scheme		Police Scheme 2006 Scheme	
	2011-12 £'000	2012-13 £'000	2011-12 £'000	2012-13 £'000	2011-12 £'000	2012-13 £'000	2011-12 £'000	2012-13 £'000
Comprehensive Income and Expenditure Statement								
Cost of Services								
Current service cost	3,167	3,073	0	0	16,030	15,460	2,000	2,330
Past service costs (general)	0	0	0	0	20	20	0	0
Settlements and Curtailments	408	181	0	0	0	0	0	0
Past service costs (indexation change RPI to CPI, reported as exceptional item on CIES page 36, see note 40)	0	0	0	0	0	0	0	0
Financing and Investment Income and Expenditure								
Interest cost	4,551	4,598	56	51	44,900	40,990	660	770
Expected return on scheme assets	(3,871)	(3,733)	0	0	0	0	0	0
Total Post Employement Benefit Charged to the Surplus or Deficit on the Provision of Services	**4,255**	**4,119**	**56**	**51**	**60,950**	**56,470**	**2,660**	**3,100**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement								
Actuarial (gains) and losses	**697**	**6,672**	**0**	**0**	**10,950**	**114,770**	**640**	**4,380**
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**4,952**	**10,791**	**56**	**51**	**71,900**	**171,240**	**3,300**	**7,480**
Movement in Reserves Statement								
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code.	(138)	(134)	(2)	(2)	0	0	0	0
Gross amount in respect of IAS19 charges charged to CIES in respect of Chief Constable	(4,117)	(3,985)	(54)	(49)	(60,950)	(56,470)	(2,660)	(3,100)
Actual amount charged against the Police Fund Balance for pensions in the year								
Employers' contributions payable to the scheme	3,263	2,909	61	65	0	0	0	0
Retirements benefits payable to pensioners	0		0		21,940	23,620	(530)	(660)
Total amount charged against the Police Fund Balance for pensions in the year	**3,263**	**2,909**	**61**	**65**	**21,940**	**23,620**	**(530)**	**(660)**

The cumulative amount of actuarial gains and losses recognised in Other Comprehensive Income and Expenditure as at 31 March 2013 was a loss of £244,356k.

19.b Assets and Liabilities in relation to Retirement Benefits

Under IAS 19, the financial statements should reflect at fair value the assets and liabilities arising from an employer's obligation to pay retirement benefits and the funding provided.

The underlying assets and liabilities for retirement benefits attributable to the Commissioner at 31 March 2013 are as follows:-

	LGPS Funded Benefits		LGPS Unfunded Benefits		Police Scheme Old Scheme		Police Scheme 2006 Scheme	
	2011-12 £'000	2012-13 £'000	2011-12 £'000	2012-13 £'000	2011-12 £'000	2012-13 £'000	2011-12 £'000	2012-13 £'000
Estimated Liabilities in Scheme	(89,083)	(108,282)	(1,042)	(1,097)	(840,510)	(988,130)	(14,220)	(22,360)
Estimated Assets in scheme	68,223	79,609	0	0	0	0	0	0
Pension Liability	**(20,860)**	**(28,673)**	**(1,042)**	**(1,097)**	**(840,510)**	**(988,130)**	**(14,220)**	**(22,360)**

The liabilities in the above table show the underlying commitments that the Commissioner has, in the long run, to pay retirement benefits. The total liability of £1,040m has a substantial impact on the net worth of the Commissioner as recorded in the balance sheet, resulting in a negative overall balance of £968m.

However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy, since:

- the deficit on the local government scheme will be made good by increased contributions and changes to benefits over the remaining working life of employees, as assessed by the scheme actuary
- finance is only required to be raised to cover police pensions when the pensions are actually paid.

Reconciliation of present value of scheme liabilities:

	LGPS Funded Benefits		LGPS Unfunded Benefits		Police Scheme Old Scheme		Police Scheme 2006 Scheme	
	2011-12 £'000	2012-13 £'000	2011-12 £'000	2012-13 £'000	2011-12 £'000	2012-13 £'000	2011-12 £'000	2012-13 £'000
Balance at Start of Year	**(81,366)**	**(89,083)**	**(1,047)**	**(1,042)**	**(790,550)**	**(840,510)**	**(10,390)**	**(14,220)**
Current Service Cost	(3,167)	(3,073)	0	0	(16,030)	(15,460)	(2,000)	(2,330)
Interest Cost	(4,551)	(4,598)	(56)	(51)	(44,900)	(40,990)	(660)	(770)
Contributions by Scheme Participants	(1,278)	(1,160)	0	0	(4,080)	(4,330)	(510)	(610)
Actuarial Gains and (Losses)	(1)	(12,249)	0	(69)	(10,950)	(114,770)	(640)	(4,380)
Benefits / Transfers Paid	1,688	2,062	61	65	26,020	27,950	(20)	(50)
Past Service (normal)	0	0	0	0	(20)	(20)	0	0
Curtailments and Settlements	(408)	(181)	0	0	0	0	0	0
Balance at End of Year	**(89,083)**	**(108,282)**	**(1,042)**	**(1,097)**	**(840,510)**	**(988,130)**	**(14,220)**	**(22,360)**

The liabilities under both the LGPS and Police pension schemes have increased during 2012-13. The principal reason for this increase is in relation to actuarial gains and losses.

Reconciliation of fair value of the scheme assets:

	LGPS Funded Benefits		LGPS Unfunded Benefits	
	2011-12 £'000	2012-13 £'000	2011-12 £'000	2012-13 £'000
Balance at Start of Year	**62,195**	**68,223**	**0**	**0**
Expected Rate of Return	3,871	3,733	0	0
Actuarial Gains and (Losses)	(696)	5,646	0	0
Employer Contributions	3,263	2,909	61	65
Contributions by Scheme Participants	1,278	1,160	0	0
Benefits Paid	(1,688)	(2,062)	(61)	(65)
Balance at End of Year	**68,223**	**79,609**	**0**	**0**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long term real rates of return experienced in the respective markets.

The actual return on the Commissioner's share of scheme assets in the year was a gain of £9,379k which compares with a gain in 2011-12 of £3,175k.

Scheme History

	Restated 2008-09 £'000	Restated 2009-10 £'000	2010-11 £'000	2011-12 £'000	2012-13 £'000
Present Value of Scheme Liabilities					
Local Government Pension Scheme	(54,365)	0	0	0	0
- Funded	0	(86,829)	(81,366)	(89,083)	(108,282)
- Unfunded		(1,287)	(1,047)	(1,042)	(1,097)
Police - Old Scheme	(587,270)	(875,780)	(790,550)	(840,510)	(988,130)
Police - 2006 Scheme	(2,090)	(8,480)	(10,390)	(14,220)	(22,360)
Fair Value of Assets in the LGPS	38,837	54,461	62,195	68,223	79,609
Surplus / (Deficit) in the Scheme					
Local Government Pension Scheme	(15,528)	(33,655)	(20,218)	(21,902)	(29,770)
Police - Old Scheme	(587,270)	(875,780)	(790,550)	(840,510)	(988,130)
Police - 2006 Scheme	(2,090)	(8,480)	(10,390)	(14,220)	(22,360)
Total	**(604,888)**	**(917,915)**	**(821,158)**	**(876,632)**	**(1,040,260)**

The total contributions expected to be made to the Local Government Pension Scheme by the authority in the year to 31 March 2014 are £2,814k. Expected contributions for the Police Pension Scheme in the year to 31 March 2014 are £10,094k.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, which provides an estimate of the pensions that will be payable in future years using assumptions about mortality rates, salary levels, etc. William M Mercer, an independent firm of actuaries, has carried out the assessment on the Local Government Pension Scheme. These accounts are based on the actuarial valuation undertaken on 31 March 2010. The Police Scheme estimates have been compiled using a valuation model devised by the Government Actuaries Department.

The principal assumptions used by the actuary have been:-

	LGPS		Police Scheme	
	2011-12	2012-13	2011-12	2012-13
Long-term Expected Rate of return on Assets in the Scheme:				
- Equity Investments	7.00%	7.00%	N/A	N/A
- Government Bonds	3.10%	2.80%	N/A	N/A
- Other Bonds	4.10%	3.90%	N/A	N/A
- Property	6.00%	5.70%	N/A	N/A
- Cash / Liquidity	0.50%	0.50%	N/A	N/A
- Other	7.00%	7.00%	N/A	N/A
Mortality Assumptions:				
Longevity at 65 for current pensioners:				
- Men	21.8	22.2	23.3	23.4
- Women	24.5	24.9	25.7	25.8
Longevity at 65 for future pensioners:				
- Men	23.2	24.1	25.6	25.7
- Women	26.0	26.9	27.8	27.9
Rate of Inflation (CPI)	2.60%	2.40%	2.50%	2.50%
Rate of increase in salaries	4.35%	4.15%	4.70%	4.75%
Rate of increase in pensions	2.60%	2.40%	2.50%	2.50%
Rate for discounting scheme liabilities	5.10%	4.40%	4.90%	4.30%
Take-up of option to convert annual pension into retirement lump sum	50%	50%	N/A	N/A

The Police Pension Scheme has no assets to cover its liabilities. The Commissioner's share of assets in the Cumbria County Council Pension Fund (LGPS) consists of the following categories, by proportion of the total assets held:

	2011-12		2012-13	
LGPS Asset Breakdown	£'000	%	£'000	%
Equities	35,202	51.60%	44,103	55.40%
Government Bonds	10,916	16.00%	12,658	15.90%
Other Bonds	10,916	16.00%	12,578	15.80%
Property	4,366	6.40%	4,458	5.60%
Cash / Liquidity	1,092	1.60%	478	0.60%
Other	5,731	8.40%	5,334	6.70%
	68,223	**100.00%**	**79,609**	**100.00%**

The actuarial gains and losses identified as movements on the Pensions Reserve in 2012-13 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities as 31 March 2013.

	2008-09		2009-10		2010-11		2011-12		2012-13	
	£'000	%	£'000	%	£'000	%	£'000	%	£'000	%
LGPS										
Difference between actual and expected returns on assets	(11,202)	-29%	8,985	17%	918	2%	(696)	1%	5,646	7%
Difference between actual and expected returns on liabilities	18,115	33%	(26,460)	-33%	9,458	-12%	(1)	0%	(12,318)	11%
Change in actuarial assumptions	0	0%	0	0%	0	0%	0	0%	0	0%
Net Gain/(Loss)	**6,913**		**(17,475)**		**10,376**		**(697)**		**(6,672)**	
Police (Old Scheme)										
Difference between actual and expected returns on liabilities	1,683	0%	14,270	2%	27,320	3%	12,190	1%	25,410	3%
Change in actuarial assumptions	71,330	12%	(271,910)	-31%	6,000	-1%	(23,140)	-3%	(140,180)	-14%
Net Gain/(Loss)	**73,013**		**(257,640)**		**33,320**		**(10,950)**		**(114,770)**	
Police (New 2006 Scheme)										
Difference between actual and expected returns on liabilities	(20)	-1%	(530)	-6%	(20)	0%	110	1%	(380)	-2%
Change in actuarial assumptions	480	22%	(4,140)	-49%	360	-3%	(750)	-5%	(4,000)	-18%
Net Gain/(Loss)	**460**		**(4,670)**		**340**		**(640)**		**(4,380)**	
Total Gain/(Loss)	**80,386**		**(279,785)**		**44,036**		**(12,287)**		**(125,822)**	

20 Private Finance Initiative (PFI)

The former Police Authority entered an agreement for the construction and subsequent servicing of a TPA Headquarters facility in West Cumbria in September 2001 under a PFI arrangement. Under the agreement the PFI provider constructed the facility, and undertakes to make the building available to the Commissioner in a specified condition for a 25 year period in return for a monthly unitary charge payment made by the Commissioner. In addition the provider delivers a range of services in relation to the building which are specified in the PFI contract. At the end of the contract period the Commissioner has the right to acquire the building at 50% of its market value.

Prior to 2009-10 the monthly unitary charge payment was treated as revenue expenditure and appeared within the service expenditure element of the Comprehensive Income and Expenditure Statement. From 2009-10 in accordance with changes introduced by SORP 2009, the accounting treatment changed significantly. The PFI asset is now recognised on the Commissioner's balance sheet along with a corresponding PFI finance lease liability which recognises the Commissioner's outstanding liability to pay for the asset. The PFI asset is depreciated and revalued in the same way as any other asset in accordance with accounting policies. The unitary charge payment is now split into three components in the accounts as follows:

- Service Charges – these continue to be charged to the service expenditure element.
- Interest Payments – these are charged to the external interest payable heading on the Comprehensive Income and Expenditure Statement.
- Repayment of Principal – this charge reduces the outstanding balance sheet liability for the asset. However, a corresponding increase in the minimum revenue provision is made in accordance with the Commissioner's minimum revenue provision policy.

In accordance with the new accounting rules, lifecycle replacement costs are now recognised when they are actually incurred. The Commissioner receives specific government funding from DCLG as a contribution to the costs of financing the scheme.

The following information is disclosed in relation to the PFI asset.

20.a Movement on Fixed Assets

The value and movement in value of the asset held under the PFI agreement is analysed in note 6 above.

20.b PFI Finance Lease Liability

The value of Liabilities resulting from the PFI Agreement are shown in the table below:

	As at 31 March 2012 £'000	2013 £'000
Balance at the start of the year	(5,509)	(5,449)
Repayments made during year	60	67
Balance at the end of the year	**(5,449)**	**(5,382)**
Split of liability		
Current Liability	(67)	(76)
Long Term Liability	(5,382)	(5,306)
	(5,449)	**(5,382)**

20.c Payments Due to be made under PFI Contract

An estimate of the future payments to be made under the PFI contract are shown in the table below. Where applicable an estimated inflation index of 2% (linked to the GDP deflator) per annum has been applied to the payments.

	Repayment of Liability £'000	Interest Payments £'000	Service Costs £'000	Total £'000
Repayable within one year	76	668	533	**1,277**
Between two and five years	420	2,556	2,332	**5,308**
Between six and ten years	922	2,798	3,348	**7,068**
Between eleven and fifteen years	1,054	1,488	2,590	**5,132**
	2,472	**7,510**	**8,803**	**18,785**

21 Leases

21.a Finance leases

The Commissioner has acquired a photocopier/printer under a finance lease. The asset acquired under this lease is carried on the balance sheet as Equipment at the following net amounts:

	As at 31 March 2012 £'000	2013 £'000
Equipment		
- Printer/Photocopier	28	19

The Commissioner is committed to making minimum payments under the leases comprising settlement of the long-term liability for the interest in the asset acquired by the Commissioner and finance costs that will be payable by the Commissioner in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	As at 31 March 2012 £'000	2013 £'000
Finance lease Liabilities (NPV of Minimum lease payments)		
- Current	(9)	(9)
- Non-current	(13)	(3)
	(22)	**(12)**
Finance costs payable in future years	(3)	(2)
Minimum lease payments	**(25)**	**(14)**

Finance lease liabilities due within one year are shown on the balance sheet as creditors.

21.b The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments As at 31 March 2012 £'000	2013 £'000	Finance lease Liabilities As at 31 March 2012 £'000	2013 £'000
Within one year	11	11	9	9
Between two and five years	14	3	13	3
Total	**25**	**14**	**22**	**12**

21.c Operating leases

The Commissioner utilises land and buildings and equipment assets under operating leases. The land and buildings are typically short to medium term rentals of buildings. The equipment includes livescan fingerprint machines and photocopiers.

The future minimum lease payments due under non-cancellable leases in future years are:

	As at 31 March 2012 £'000	2013 £'000
Not later than one year	216	113
Later than one year and not later than five years	222	181
Later than five years.	3,439	3,409
	3,877	**3,703**

The expenditure charged to the Net Cost of Police Services in relation to these leases was:

	2011-12 £'000	2012-13 £'000
Minimum Lease Payments		
- Land and Buildings	138	177
- Equipment	83	72
	221	**249**

22 Usable Reserves

In addition to the Commissioner Police Fund, which the Commissioner aims to maintain at 5% of budgeted expenditure, the following reserves are maintained and accounted for in line with the Code of practice.

- Capital Receipts Reserve – this reserve is used to hold capital receipts until they are utilised to finance capital expenditure or reduce borrowing.
- Capital Grants Unapplied Account – this reserve is used to hold capital grants until they are utilised to finance capital expenditure.
- Capital Reserve – this reserve is a revenue backed earmarked reserve that has been set aside to fund capital expenditure.
- Earmarked Reserves - The Commissioner has a number of established earmarked reserves and has created additional reserves at the end of 2012-13. Earmarked reserves exist both to provide a contingency to cushion the effect of unexpected events and to provide a mechanism to build up funds to meet expected liabilities. The Commissioner's earmarked reserves have been formulated in conjunction with the CIPFA guidance on Reserves and Provisions. Details of the earmarked reserves in existence and a brief description as to their purpose is included in note 5 to the accounts (see page 45).

  The movement in the Commissioner's Usable Reserves is detailed in the Movement in Reserves Statement (see page 36), and the disclosure notes relating to Adjustments between the Accounting Basis and Funding Basis under regulations (Note 4) and Transfer to/from Earmarked reserves (Note 5).

22.a In addition to the useable reserves described above, the group accounts contain a number of usable reserves in respect of the Chief Constable. These reserves, which would ordinarily be classed as unusable reserves have been treated as usable reserves as the Chief Constable does not currently have the statutory override powers in respect of certain transactions.

22.b Chief Constable's Pensions Reserve

The Pensions Reserves (LGPS and Police) absorb the timing differences arising from the different arrangements for accounting for post employment benefits and for funding in accordance with statutory provisions. The Commissioner accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Commissioner makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pension Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Commissioner has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	LGPS Pensions		Police Pensions	
	2011-12 £'000	2012-13 £'000	2011-12 £'000	2012-13 £'000
Balance at Start of Year	**(19,561)**	**(21,190)**	**(800,940)**	**(854,730)**
Actuarial gains or (losses) on pension assets and liabilities	(674)	(6,455)	(11,590)	(119,150)
Transfer to usable reserves in respect of amounts charged to the provision of services.	(955)	(1,157)	(42,200)	(36,610)
Balance at End of Year	**(21,190)**	**(28,802)**	**(854,730)**	**(1,010,490)**

22.c Chief Constable's Accumulated Absences Account

The short-term accumulated absences account absorbs the differences that would otherwise arise on the Police Fund balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave, flexi leave, time off in lieu and rest day entitlements carried forward at 31 March.

	2011-12 £'000	2012-13 £'000
Balance at Start of Year	**(4,008)**	**(3,711)**
Settlement or cancellation of accrual made at the end of the preceeding year	4,008	3,711
Amounts accrued at the end of the current year	(3,711)	(3,645)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	297	**66**
Balance at End of Year	**(3,711)**	**(3,645)**

23 Unusable Reserves

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Commissioner. The balance of unusable reserves as shown on the Balance Sheet (page 38) is shown in the table below.

	Note	As at 31 March 2012 £'000	2013 £'000
Revaluation Reserve	23a	7,755	7,095
Pensions Reserve - LGPS	23e	(712)	(968)
Capital Adjustment Account	23b	41,875	36,460
Collection Fund Adjustment Account	23c	255	447
Accumulated Absences Account	23d	(30)	(25)
		49,143	**43,009**

23.a Revaluation Reserve

The Revaluation Reserve contains the overall gains made by the Commissioner arising from increases in the value of Property, Plant and Equipment and Intangible assets. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost,
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve records the unrealised net gain from the revaluation of non current assets accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account. The balance is made up of individual credit balances associated with specific assets and will be equal to the difference between the current value net book value (NBV) and the historic cost NBV for all assets.

The movements on the reserve during 2012-13 and the previous year are set out in the table below:-

	2011-12 £'000	2012-13 £'000
Balance at Start of Year	**8,122**	**7,755**
Adjustment to Opening Balance	**0**	141
Write out of Revalued Amount on Impairment	0	0
Upward revaluation of assets	83	4
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(335)	(607)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Servcies	**(252)**	**(603)**
Difference between fair value depreciation and historical cost depreciation	(1)	0
Accumulated gains on assets sold or scrapped	(114)	(198)
Amount written off to Capital Adjustment Account	**(115)**	**(198)**
Balance at End of Year	**7,755**	**7,095**

23.b Capital Adjustment Account

The Capital Adjustment Account (CAA) absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Commissioner as finance for the costs of acquisition, construction and enhancement. The account contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation reserve was created to hold such gains. Note 4 provides details of the source of all the transactions posted to the account apart from those involving the revaluation reserve.

The movements on the account during 2012-13 and the previous year are set out in the table below:-

	2011-12 £'000	2012-13 £'000
Balance at Start of Year	**45,411**	**41,875**
Adjustment to Opening Balance	0	(141)
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure		
Charges for depreciation and impairment of non-current	(4,586)	(4,692)
Revaluation losses on Property, Plant and Equipment	(1,427)	(2,993)
Amortisation of Intangible assets	(722)	(703)
Amounts of non-current assets written off on disposal or sale as part of the gain or loss on disposal to the Comprehensive Income and Expenditure Statement	(542)	(1,204)
	(7,277)	**(9,592)**
Adjusting amounts written out of the Revaluation Reserve	115	198
Net written out amount of the cost of non-current assets consumed in the year	**(7,162)**	**(9,394)**
Capital financing applied in the year		
Use of the Capital Receipts Reserve to finance new capital expenditure	471	139
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	346	510
Application of grants to capital financing from the Capital Grants Unapplied Account	771	122
Statutory provision for the financing of capital investment charged against the Police Fund	337	377
Capital expenditure charged against the Police Fund	1,701	2,972
	3,626	**4,120**
Balance at End of Year	**41,875**	**36,460**

23.c Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax payers compared with the statutory arrangements.

The end of year balance on the account reflects the Commissioner's aggregate share of the Surplus/Deficit on the Collection fund operated by each of the 6 district councils (or billing authorities) that has yet to be distributed. The movements on the account during 2012-13 and the previous year are set out in the table below:

	2011-12 £'000	2012-13 £'000
Balance at Start of Year	**168**	**255**
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	87	192
Balance at End of Year	**255**	**447**

23.d Accumulated Absences Account

The short-term accumulated absences account absorbs the differences that would otherwise arise on the Police Fund balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave, flexi leave, time off in lieu and rest day entitlements carried forward at 31 March. Statutory arrangements require that the impact on the Police Fund Balance is neutralised by transfers to or from the Account.

	2011-12 £'000	2012-13 £'000
Balance at Start of Year	**(52)**	**(30)**
Settlement or cancellation of accrual made at the end of the preceeding year	52	30
Amounts accrued at the end of the current year	(30)	(25)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	**22**	**5**
Balance at End of Year	**(30)**	**(25)**

23.e Pensions Reserve

The Pensions Reserves (LGPS and Police) absorb the timing differences arising from the different arrangements for accounting for post employment benefits and for funding in accordance with statutory provisions. The Commissioner accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Commissioner makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pension Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Commissioner has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	LGPS Pensions 2011-12 £'000	LGPS Pensions 2012-13 £'000
Balance at Start of Year	**(657)**	**(712)**
Actuarial gains or (losses) on pension assets and liabilities	(23)	(217)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(140)	(136)
Employer's pension contributions and direct payments to pensioners payable in the year.	108	97
Balance at End of Year	**(712)**	**(968)**

24 The Cash Flow Statement

This statement summarises the inflows and outflows of cash and cash equivalents arising from transactions with third parties for revenue and capital purposes. Cash is defined for the purpose of this statement, as cash in hand and deposits repayable on demand less overdrafts repayable on demand. The cashflow statement is shown on page 39.

Notes to the Accounts

24.a Operating Activities

The cash flows for operating activities include the following items:

	2011-12 £000s	2012-13 £000s
Interest received	(457)	(193)
Interest paid	694	680

24.b Investing Activities

The cash flows from investing activities are made up as follows:

	2011-12 £000s	2012-13 £000s
Purchase of property, plant and equipment and intangible assets	3,892	4,028
Purchase of short-term and long-term investments	85,000	104,300
Proceeds from the sale of property, plant and equipment and intangible assets	(478)	(1,343)
Proceeds from short-term and long-term investments	(87,500)	(106,200)
Other receipts from investing activities	(1,139)	(1,059)
Net cash flows from investing activities	**(225)**	**(274)**

24.c Financing Activities

The cash flows from financing activities are made up as follows:

	2011-12 £000s	2012-13 £000s
Cash receipts of short and long-term borrowing	0	0
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	68	77
Repayment of short and long-term borrowing	139	63
Net cash flows from financing activities	**207**	**140**

25 Comprehensive Income and Expenditure Statement

This account summarises the resources that have been generated and consumed in providing policing and crime reduction services during the year. It includes all day to day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year.

25.a Comprehensive Income and Expenditure Statement Categories

The Code requires the Commissioner's financial statements to show the Comprehensive Income and Expenditure Statement in a form as recommended by SERCOP. This is designed both to provide more meaningful information about how resources are utilised and also to allow more meaningful comparison amongst policing organisations. SERCOP has reaffirmed the concept of Total Cost, which requires consistent appropriation of support costs and overheads to defined areas of front line policing activity. The Police Objective Analysis (POA) was introduced by the Home Office and was used as a basis for reporting the service expenditure analysis for the first time in the 2009-10 accounts. The defined areas, together with some explanations as to their content, are set out below:-

(a) Police Services, this includes the following activities:

- Local Policing – neighbourhood policing, incident management, local investigation, community liaison, local command team and support overheads.
- Dealing with the Public – local call centre/front desk, central communications unit.
- Criminal Justice Arrangements – custody/prisoner handling, criminal justice arrangements, Police National Computer, civil disclosure/criminal records bureau, coroner assistance, fixed penalty scheme/central ticket office.
- Roads Policing – traffic units, vehicle recovery, road safety partnership
- Specialist Operations – central operations command team and support overheads, underwater search/marine support, dogs sections, level 1 advanced public order, firearms unit, civil contingencies.
- Intelligence – central intelligence command team and support overheads, intelligence/threat assessments, covert policing.
- Specialist Investigation – crime support command team and support overheads, major investigations unit, economic crime, serious and organised crime unit, public protection.
- Investigative Support – scenes of crime officers, external forensic costs, fingerprint/DNA bureau, photographic image recovery, other forensic services.
- National Policing – secondments (out of force), counter terrorism/special branch, ACPO projects/initiatives.

(b) Corporate and Democratic Core Costs:

- Democratic Representation and Management – all member expenses; officer time spent on appropriate advice activities; subscriptions to local authority associations etc.
- Corporate Management – costs of head of paid service; maintenance of statutory registers; statutory returns and statistics; external audit and inspections; Treasury Management; bank charges.

(c) Non Distributed Costs:

- Pension costs – past service costs, curtailments and settlements.
- Depreciation costs and impairment losses in relation to assets under construction and surplus assets held for disposal.

Notes to the Accounts

25.b Subjective Analysis of Income and Expenditure

The revenue income and expenditure account is shown below on a subjective basis for information.

Re-stated 2011-12 Gross Expenditure £'000	Re-stated 2011-12 Gross Income £'000	Re-stated 2011-12 Net Expenditure £'000	Area of Expenditure	Notes	2012-13 Gross Expenditure £'000	2012-13 Gross Income £'000	2012-13 Net £'000
39,230		39,230	Police Pay and Allowances		36,222		36,222
3,066		3,066	PCSO Pay and Allowances		2,725		2,725
24,472		24,472	Police Staff Pay and Allowances		20,925		20,925
1,968		1,968	Other Employee Costs		2,869		2,869
10,304		10,304	Contribution to Police Pension Fund Account		12,058		12,058
18,030		18,030	Police Pensions - IAS19 Current Service Cost		17,790		17,790
97,070		**97,070**	**Total Employee Costs**		**92,589**		**92,589**
3,724		3,724	Premises		3,821		3,821
2,717		2,717	Transport		2,684		2,684
9,520		9,520	Supplies and Services		9,196		9,196
694		694	External Interest		680		680
787		787	Agency and Contract Services		1,220		1,220
146		146	Support Services		135		135
50,167	(3,871)	46,296	Pension Interest Costs		46,409	(3,733)	42,676
6,735		6,735	Fixed Asset Charges		8,388		8,388
171,560	**(3,871)**	**167,689**	**Gross Operating Expenditure**		**165,122**	**(3,733)**	**161,389**
	(3,284)	(3,284)	Income from Fees and Charges			(3,624)	(3,624)
	(4,079)	(4,079)	Income from Grants & Contributions - Central Govt.	35		(3,671)	(3,671)
	(386)	(386)	Income from Grants & Contributions - Other			(267)	(267)
	(244)	(244)	Interest and Investment Income			(104)	(104)
428		428	Non Distributed Costs		201		201
16	0	16	Gain or Loss on Sale of Fixed Assets	6d		(173)	(173)
	(688)	(688)	PFI Grant	35		(688)	(688)
	(10,304)	(10,304)	Pensions Top Up grant	35		(12,058)	(12,058)
172,004	**(22,856)**	**149,148**	**Net Operating Expenditure**		**165,323**	**(24,318)**	**141,005**
337		337	Minimum Revenue Provision		377		377
(43,187)		(43,187)	Pensions Adjustment		(37,806)		(37,806)
(6,799)		(6,799)	Capital Financing Adjustment		(8,250)		(8,250)
1,701		1,701	Revenue Contribution to Capital		2,972		2,972
(1,716)		(1,716)	Transfer to /(from) Earmarked Reserves		3,240		3,240
3,776		3,776	Transfer to /(from) Capital Reserves		(600)		(600)
1,139		1,139	Transfer to Capital Grant Unapplied		1,059		1,059
87		87	Transfers to / (from) the Collection Fund Adj. A/c		192		192
319		319	Transfers to/(from) the Short term Compensated Absences Account		71		71
	(34,478)	(34,478)	Income from Council Tax	36		(35,782)	(35,782)
			General Government Grants				
	(33,055)	(33,055)	- Home Office Police Grant	35		(30,545)	(30,545)
	(1,139)	(1,139)	- Home Office Capital Grant & Other Capital Grants	35		(1,059)	(1,059)
	(8,530)	(8,530)	- Revenue Support Grant	35		(663)	(663)
	(27,596)	(27,596)	National Non Domestic Rates Redistribution	35		(34,195)	(34,195)
127,661	**(127,654)**	**7**	**Total**		**126,578**	**(126,562)**	**16**
		7	**(Surplus) / Deficit for the Year**				**16**
		(5,149)	Police Fund Balance Brought Forward				(5,149)
		(7)	Capital Receipt Transferred to Police Fund				(16)
		(5,149)	**Police Fund Balance Carried Forward**				**(5,149)**

25.c Segmental Income and Expenditure

The income and expenditure of the Commissioner's principal segments is recorded in the budget reports for the year as follows:

The figures for 2012-13 are as follows:

	North TPA £000s	South TPA £000s	West TPA £000s	CID £000s	UOS £000s	Support Services £000s	Office of PCC £000s	Total £000s
Fees, charges & other service income	(83)	(84)	(193)	(206)	(639)	(553)	(4)	**(1,763)**
Government grants	0	0	2	0	0	0	(83)	**(81)**
Total Income	**(83)**	**(84)**	**(191)**	**(206)**	**(639)**	**(553)**	**(87)**	**(1,844)**
Employee expenses	14,711	14,858	15,082	10,818	12,835	9,251	442	**77,997**
Other operating expenses	801	783	778	1,858	1,126	14,323	496	**20,164**
Total operating expenses	**15,512**	**15,641**	**15,860**	**12,676**	**13,962**	**23,574**	**938**	**98,161**
Net Expenditure	**15,428**	**15,556**	**15,669**	**12,469**	**13,322**	**23,021**	**850**	**96,317**

The comparative information for 2011-12 is as follows:

	North TPA £000s	South TPA £000s	West TPA £000s	CID £000s	UOS £000s	Support Services £000s	Office of PCC £000s	Total £000s
Fees, charges & other service income	(118)	(108)	(93)	(53)	(95)	(506)	0	**(973)**
Government grants	0	0	0	0	0	(3,659)	0	**(3,659)**
Total Income	**(118)**	**(108)**	**(93)**	**(53)**	**(95)**	**(4,165)**	**0**	**(4,632)**
Employee expenses	15,430	16,016	15,573	10,626	13,051	13,082	571	**84,349**
Other operating expenses	1,394	1,171	1,108	2,881	900	13,528	222	**21,204**
Total operating expenses	**16,824**	**17,187**	**16,681**	**13,507**	**13,951**	**26,610**	**793**	**105,553**
Net Expenditure	**16,706**	**17,079**	**16,588**	**13,454**	**13,856**	**22,445**	**793**	**100,921**

25.d Reconciliation of Segmental Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

	2011-12 £000s	2012-13 £000s
Net Expenditure in Service Analysis (above)	100,921	96,317
Add services not included in main analysis	4,155	4,250
Add technical accounting adjustments (not reported in management accounts)	40,866	(37,735)
Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement	(42,868)	35,787
Net Cost of Services in Comprehensive Income and Expenditure Statement	**103,074**	**98,619**

25.e Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of segmental Income and Expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

The figures for 2012-13 are as follows:

	Service Analysis £000s	Services not in Analysis £000s	Technical Adjustments £000s	Not included in CI&ES £000s	Net Cost of Services £000s	Corporate Amounts £000s	Total £000s
Fees, charges & other service income	(1,763)	(2,122)	0	0	**(3,885)**	(7)	**(3,892)**
Interest and investment income	0	0	0	0	**0**	(104)	**(104)**
Income from council tax	0	0	0	0	**0**	(35,782)	**(35,782)**
Government grants and contributions	(81)	(3,590)	0	0	**(3,671)**	(79,207)	**(82,878)**
Total Income	**(1,844)**	**(5,712)**	**0**	**0**	**(7,556)**	**(115,100)**	**(122,656)**
Employee expenses	77,997	7,674	(37,735)	32,795	**80,731**	42,676	**123,407**
Other service expenses	20,164	2,288	0	0	**22,452**	12,058	**34,510**
Depreciation, amortisation and impairment	0	0	0	2,993	**2,993**	0	**2,993**
Interest Payments	0	0	0	0	**0**	680	**680**
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	**0**	(173)	**(173)**
Total operating expenses	**98,161**	**9,962**	**(37,735)**	**35,787**	**106,175**	**55,241**	**161,416**
(Surplus) or deficit on the provision of services	**96,317**	**4,250**	**(37,735)**	**35,787**	**98,619**	**(59,859)**	**38,760**

The comparative information for 2011-12 is as follows:

	Service Analysis £000s	Services not in Analysis £000s	Technical Adjustments £000s	Not included in CI&ES £000s	Net Cost of Services £000s	Corporate Amounts £000s	Total £000s
Fees, charges & other service income	(973)	(3,116)	0	0	**(4,089)**	0	**(4,089)**
Interest and investment income	0	0	0	0	**0**	(244)	**(244)**
Income from council tax	0	0	0	0	**0**	(34,478)	**(34,478)**
Government grants and contributions	(3,659)	0	0	0	**(3,659)**	(81,312)	**(84,971)**
Total Income	**(4,632)**	**(3,116)**	**0**	**0**	**(7,748)**	**(116,034)**	**(123,782)**
Employee expenses	84,349	6,273	39,439	(42,868)	**87,193**	46,296	**133,489**
Other service expenses	21,204	998	0	0	**22,202**	10,304	**32,506**
Depreciation, amortisation and impairment	0	0	1,427	0	**1,427**		**1,427**
Interest Payments	0	0	0	0	**0**	694	**694**
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	**0**	16	**16**
Total operating expenses	**105,553**	**7,271**	**40,866**	**(42,868)**	**110,822**	**57,310**	**168,132**
(Surplus) or deficit on the provision of services	**100,921**	**4,155**	**40,866**	**(42,868)**	**103,074**	**(58,724)**	**44,350**

Notes to the Accounts

26 Members Allowances and Expenses

The Code of Practice on Local Authority Accounting requires the disclosure of the total amount of members allowances paid in the year. This is set out in the table below together with a comparative figure for the previous year. A full disclosure of allowances and expenses paid to individual members can be found on the Police and Crime Commissioners website at http://www.cumbria-pcc.gov.uk/media/11836/CPA%20Members%20Allowances%20and%20Expenses%202012-13.pdf

	2011-12 £'000	2012-13 £'000
Basic Allowance	164	106
Special Responsibility Allowance	41	28
Telephone Allowance	2	1
Travel and Subsistence	24	30
Conferences and Training	2	0
National Insurance	12	7
	245	**172**

27 Audit Fees

In 2012-13 the Commissioner incurred the following fees relating to external audit and inspection services provided by the Audit Commission up to September 2012 and by Grant Thornton UK LLP from September 2012.

	2011-12 £'000	2012-13 £'000
Amounts Relating to The Police and Crime Commissioner		
Fees payable to The Audit Commission with regard to external audit services carried out by the appointed auditor.	75	0
Fees payable to Grant Thornton UK LLP with regard to external audit services carried out by the appointed auditor.	0	45
Rebate from Audit Commission in year.	(6)	(3)
	69	**42**
Amounts Relating to The Chief Constable		
Fees payable to Grant Thornton UK LLP with regard to external audit services carried out by the appointed auditor.	0	20
Rebate from Audit Commission in year.	0	(1)
	0	**19**
Total External Audit Fees for Year	**69**	**61**

28 Agency Services

Expenditure on Agency Services is set out in the table below.

	2011-12 £'000	2012-13 £'000
Police National Computer Costs	218	199
Mutual Aid	249	235
Underwater Search Team	50	60
Others (Vulnerable Persons, crime stoppers, Casualty Bureau)	44	45
	561	**539**

29 Minimum Revenue Provision

Regulations 27 and 28 of the Capital Financing and Accounting Regulations 2003 require Authorities to make a provision from revenue for the repayment of any undischarged credit liabilities. This is referred to as the Minimum Revenue Provision (MRP). Additional voluntary contributions are permitted, which have the effect of reducing an authority's Capital Financing requirement.

In line with the Capital Finance and Accounting regulations a Statement of MRP Policy was approved in February 2012 as part of the Treasury Management Strategy Statement. The policy states that MRP will be calculated using the regulatory method for debt incurred prior to 1 April 2008 and on the asset life basis for debt incurred after this date. In respect of PFI assets brought onto the balance sheet under the 2009 SORP, the MRP provision will match the annual principal repayment for the associated deferred liability.

30 Disclosure of Remuneration for Senior Employees

The following table sets out the remuneration disclosures for Senior Officers and Relevant Police Officers whose salary is less than £150,000 but more than £50,000 per year.

The table for 2012-13 includes more officers than in previous years, this reflects a change in decision making arrangements during the year whereby the Extended Chief Officer Group became the formal decision making body for the Constabulary.

The table below includes the costs of the temporary Chief Constable (A) who was suspended on full pay in September 2012. A Temporary Chief Constable has been seconded from Merseyside Police to cover the role but continues to be paid by the Police and Crime Commissioner for Merseyside. Merseyside have recharged costs of this secondment amounting to £108k to the Police and Crime Commissioner for Cumbria for the period September 2012 to March 2013, these costs are included in the accounts of the Police and Crime Commissioner for Cumbria as third party related expenditure rather than as employee costs and are therefore excluded from the table below.

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The table below gives the information for 2012-13 in £000's.

Postholder Information Post Title	Note	Salary (including Fees & Allowances)	Bonuses	Expense Allowances	Benefits in Kind	Termination Pay & Compensation for Loss of Office	Other Payments (Police Officers Only)	Total Remuneration Excluding pension Contributions	Pension Contributions	Total Remuneration Including pension Contributions
Temp. Chief Constable (A)	1	131	0	0	6	0	2	**139**	32	**171**
Temp. Deputy Chief Constable	2	108	0	0	5	0	2	**115**	26	**141**
Assistant Chief Constable	3	109	0	7	0	0	3	**119**	26	**145**
Chief Superintendent (A)		79	4	2	1	0	5	**91**	19	**110**
Chief Superintendent (B)		79	4	1	1	0	5	**90**	19	**109**
Chief Superintendent (C)		79	4	3	1	0	3	**90**	19	**109**
Chief Superintendent (D)		79	4	4	0	0	0	**87**	19	**106**
Superintendent		73	4	2	0	0	3	**82**	17	**99**
Police & Crime Commissioner	4	23	0	2	1	0	0	**26**	3	**29**
PCC Chief Finance Officer		74	0	0	0	0	0	**74**	8	**82**
PCC Chief Executive		87	0	2	1	0	0	**90**	10	**100**
Head of Financial Services	5	55	1	0	0	0	0	**56**	6	**62**
Director of Corporate Support	6	72	0	1	0	0	0	**73**	8	**81**
Director of Corporate Improvement	7	70	0	0	0	0	0	**70**	8	**78**
Director of Finance & Resources	8	46	0	0	0	101	0	**147**	5	**152**
Director of Human Resources	9	29	0	0	0	127	0	**156**	3	**159**
Director of Legal Services		70	0	2	1	0	0	**73**	8	**81**
Total		**1,263**	**21**	**26**	**17**	**228**	**23**	**1,578**	**236**	**1,814**

Notes:

1 - Temporary Chief Constable (A) was suspended on the 13 September 2012 and remains on full pay. A temporary Chief Constable has been seconded from Merseyside Police to cover the role with effect from 13 September 2012, but continues to be paid by Merseyside Police & Crime Commissioner.

2 - Temporary Deputy Chief Constable (B) was promoted to Temporary Deputy Chief Constable on 12 November 2012 from the role of Assistant Chief Constable.

3 - The Assistant Chief Constable was acting as Temporary Deputy Chief Constable until 12 November 2012.

4 - The Police & Crime Commissioner for Cumbria took office on the 22 November 2012 working full time (part year figures only). The full time equivalent salary for the role is £65k.

5 - The Head of Financial Services was appointed as Section 151 Officer on 1 November 2012, figures include a full years salary details.

6 - The Director of Corporate Support was appointed on the 7 November 2012, figures include a full years salary details.

7 - The Director of Corporate Improvement was appointed on the 1 November 2012, figures include a full years salary details.

8 - The Director of Finance & Resources left the organisation on the 1 November 2012, figures are part year but include final payments made in April 2013.

9 - The Director of Human Resources left the organisation on the 10 August 2012, figures are part year.

The comparative figures for 2011-12 in £000's, are set out in the table below:

Postholder Information Post Title	Note	Salary (including Fees & Allowances)	Bonuses	Expense Allowances	Benefits in Kind	Termination Pay & Compensation for Loss of Office	Other Payments (Police Officers Only)	Total Remuneration Excluding pension Contributions	Pension Contributions	Total Remuneration Including pension Contributions
Chief Constable (A)	1	108	0	0	3	0	11	**122**	25	**147**
Chief Constable (B) / Deputy Chief Constable (A)	2	114	0	0	3	0	3	**120**	28	**148**
Deputy Chief Constable (B) / Assistant Chief Constable (A)	3	105	0	8	0	0	3	**116**	25	**141**
Assistant Chief Constable (B)		107	0	1	5	0	1	**114**	26	**140**
Chief Executive		87	0	2	1	0	0	**90**	10	**100**
Treasurer (A)	4	30	0	0	0	0	0	**30**	3	**33**
Treasurer /Deputy Chief Executive (B)	5	29	0	0	0	0	0	**29**	3	**32**
Total		**580**	**0**	**11**	**12**	**0**	**18**	**621**	**120**	**741**

Notes:

1 - Chief Constable (A) resigned with effect from 22 January 2012.

2 - The Deputy Chief Constable (A) was promoted to Chief Constable (B) with effect from 23 January 2012.

3 - The Assistant Chief Constable (A) was temporarily promoted to Deputy Chief Constable (B) with effect from 23 January 2012.

4 - Police Authority Treasurer (A) was part time (0.50 WTE) and retired with effect from 31 November 2011. The whole time equivalent salary is £74,103

5 - Police Authority Treasurer/Deputy Chief Executive (B) was appointed on 9 November 2011 working full time. The full year equivalent salary is £74,103.

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31 Employee Remuneration

The Code of Practice on Local Authority Accounting requires the disclosure of the number of employees and senior police officers (defined as those holding a rank **above** that of superintendent) whose remuneration, excluding pension's contributions, exceeded £50,000 in 2012-13 in bands of £5,000. This is set out in the table below:

Remuneration Band	2011-12 Police Staff	2011-12 Snr Police Officers	2011-12 Total	2012-13 Police Staff	2012-13 Snr Police Officers	2012-13 Total
£50,000 to £54,999	4	0	**4**	2	0	**2**
£55,000 to £59,999	4	0	**4**	3	0	**3**
£60,000 to £64,999	2	0	**2**	1	0	**1**
£65,000 to £69,999	1	0	**1**	1	0	**1**
£70,000 to £74,999	4	0	**4**	4	0	**4**
£75,000 to £79,999	3	0	**3**	1	0	**1**
£80,000 to £84,999	0	1	**1**	1	1	**2**
£85,000 to £89,999	1	3	**4**	2	3	**5**
£90,000 to £94,999	0	0	**0**	0	0	**0**
£95,000 to £99,999	0	0	**0**	0	0	**0**
£100,000 to £104,999	0	0	**0**	0	0	**0**
£105,000 to £109,999	0	1	**1**	0	0	**0**
£110,000 to £114,999	0	1	**1**	0	2	**2**
£115,000 to £119,999	0	0	**0**	0	0	**0**
£120,000 to £124,999	0	2	**2**	0	0	**0**
£125,000 to £129,999	0	0	**0**	0	0	**0**
£130,000 to £134,999	0	0	**0**	0	0	**0**
£135,000 to £139,999	0	0	**0**	0	0	**0**
£140,000 to £144,999	0	0	**0**	0	1	**1**
£145,000 to £149,999	0	0	**0**	1	0	**1**
£150,000 to £154,999	0	0	**0**	0	0	**0**
£155,000 to £159,999	0	0	**0**	1	0	**1**
Total	**19**	**8**	**27**	**17**	**7**	**24**

The table above includes those employees and senior police officers that are also required to be disclosed on a more detailed individual basis. Please see note 30 for more information.

32 Exit Packages

The numbers of exit packages with total cost per band and a total cost of the compulsory and other redundancies are set out in the table below:

Exit package cost band (including special payments)	Number of Compulsory Redundancies		Number of other Departures Agreed		Total Number of Exit Packages by cost band		Total cost of exit packages in each band	
	2011-12 Headcount	2012-13 Headcount	2011-12 Headcount	2012-13 Headcount	2011-12 Headcount	2012-13 Headcount	2011-12 £000's	2012-13 £000's
£0-£20,000	8	2	37	5	45	7	383	93
£20,001 - £40,000	4	4	17	7	21	11	569	320
£40,001 - £60,000	1	1	5	2	6	3	283	142
£60,001 - £80,000	0	1	4	0	4	1	301	62
£80,001 - £100,000	0	1	0	0	0	1	0	94
£100,001 - £150,000	0	0	0	1	0	1	0	122
Total	**13**	**9**	**63**	**15**	**76**	**24**	**1,536**	**833**

33 Termination Benefits

During 2012-13 the contracts of a number of employees were terminated incurring termination costs amounting to £1,134k (£1,768k in 2011-12). As this amount is significant in terms of the 2012-13 accounts the amount has been shown as a separate "exceptional item" on the face of the Comprehensive Income and Expenditure Statement (page 37), see also note 41 below.

This amount is made up exit packages paid in 2012-13 and a provision for exit packages to be paid in 2013-14 where the decision to terminate employment has been made in 2012/13.

The exit packages amount to £833k (£1,536k in 2011-12). The exit packages can be further split into compensation for loss of employment £689k (£1,089k in 2011-12) and enhanced pension benefits £144k (£447k in 2011-12). The redundancies are as a result of the Constabulary's change programme. The Exit Packages note above (note 32) provides details of the number and total cost of exit packages per band and include those exit packages paid in 2012-13 and those agreed for individuals in 2012-13 but paid in 2013-14 for which an accrual was made in the 2012-13 accounts.

A further amount of £532k (£232k in 2011-12) has been set aside in a provision to pay termination costs as a result of decisions made in principle in 2012-13 but where there was some uncertainty over the individual staff or timing of the termination but for which a reasonable estimate can be made of amount of the probable obligation. This amount is netted down by costs charged against the provision in respect of 2011-12 decisions provided for at the year end where the payment was actually made in 2012/13 of £232k, providing a net movement on the provision of £301k.

34 Related Party Transactions

The Commissioner is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Commissioner or to be controlled or influenced by the Commissioner. Disclosure of these transactions allows readers to assess the extent to which the Commissioner might have been constrained in his ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Commissioner.

34.a Chief Constable for Cumbria Constabulary

The Police and Crime Commissioner has direct control over the Chief Constable's finances, providing funding for all running costs and taking responsibility for funding of all pensions' liabilities. The Commissioner is responsible for setting the Police and Crime Plan. The Chief Constable retains operational independence and operates within the funding agreement set by the Commissioner, to deliver the aims and objectives set out in the Police and Crime Plan. Section 28 of the Police Reform and Social Responsibility Act 2011 requires that the local authorities covered by the police area must establish a Police and Crime Panel (PCP) for that area. The PCP scrutinises the decisions of the Commissioner, reviews the Police and Crime Plan and has a right of veto over the precept.

34.b Central Government

Central government has effective control over the general operations of the Commissioner – it is responsible for providing the statutory framework within which the Commissioner operates and provides the majority of its funding in the form of grants. Grants received from government departments are set out in the Comprehensive Income and Expenditure Statement (page 37). Government Grants included within the Net Cost of Services are detailed in note 35 below, the extent to which these grants are outstanding at the end of the year is recorded in debtors note 14.

34.c Members

Prior to the Introduction of the Commissioner on 22 November 2012, Members of the former Police Authority had direct control over the Authority's financial and operating policies and are therefore required to declare any direct financial relationship through outside bodies or companies with the Commissioner. The Commissioner now has 4 appointed Member's who serve on the Joint Audit and Standards Committee. No material transactions have been reported in respect of the 2012-13 financial year. The total members allowances paid in 2012-13 are shown in note 26.

34.d Officers and Employees

Employees of the Commissioner and senior officers and staff of the Constabulary were asked to declare any direct financial relationship through outside bodies or companies with the Commissioner. No material transactions have been reported in respect of the 2012-13 financial year.

34.e Other Public Bodies

The Commissioner's transactions with the Cumbria Local Government Pension Scheme (administered by County Council) are shown in note 19.

The amounts received in respect of council tax income from the 6 Cumbrian District Councils are detailed in note 36.

35 Grant Income

The Authority credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2012-13.

	Re-stated 2011-12 £'000	2012-13 £'000
Credited to Taxation and Non Specific Grant Income		
Capital grants and contributions - Mobile Data	346	122
Capital grants and contributions - General	793	937
National Non Domestic Rates redistribution	27,596	34,195
Revenue Support Grant	8,530	663
Home Office Police Grant	33,055	30,545
PFI Grant	688	688
Home Office Pension Grant (Police)	10,304	12,058
TOTAL	**81,312**	**79,208**
Credited to Services		
Grants and Contributions - Central Government		
ACPO Special Operations (ACPO)	1	20
Council Tax Freeze Grant (DCLG)	858	0
Council Tax Reform (DCLG)	0	27
Crime and Substance Misuse Prevention	0	56
Criminal Justice Unit (Home Office)	10	0
Criminal Records Bureau (Home Office)	246	229
Debt Charges (Home Office)	67	40
Dedicated Security Posts (Home Office)	278	349
Mobile Data (NPIA)	84	154
Northern Chain (Home Office)	0	319
Police Community Support Officers (Home Office)	2,233	2,335
Prison Liason (ACPO)	60	82
Special Formula Grant (Home Office)	171	0
Others (Security Service, Home Office)	71	60
	4,079	**3,671**
Grants and Contributions - Other		
Local Partnership	294	173
Youth Offending Team (Cumbria CC)	92	94
	386	**267**
TOTAL	**4,465**	**3,938**

This table previously reported government grants only, the table has now been amended to show both government grants and contributions. Comparative information for 2011-12 has been restated to be shown on a like for like basis.

36 Income from Council Tax

The income from Council Tax is received as precept from the six district councils as set out below:

District	Precept Paid 2012-13 £'000	Adjustment Re Debtors/ (Creditors) £'000	Income from Council Tax £'000
Allerdale District Council	6,424	97	6,521
Barrow Borough Council	4,301	41	4,342
Carlisle City Council	6,993	9	7,002
Copeland Borough Council	4,486	26	4,512
Eden District Council	4,133	18	4,151
South Lakeland District Council	9,253	1	9,254
	35,590	**192**	**35,782**

The comparative information for 2011-12 is as follows:

District	Precept Paid 2011-12 £'000	Adjustment Re Debtors/ (Creditors) £'000	Income from Council Tax £'000
Allerdale District Council	6,231	33	6,264
Barrow Borough Council	4,170	31	4,201
Carlisle City Council	6,743	14	6,757
Copeland Borough Council	4,346	6	4,352
Eden District Council	3,961	28	3,989
South Lakeland District Council	8,940	(25)	8,915
	34,391	**87**	**34,478**

37 Contingent Liabilities

Insurance Claims

A number of claims are being pursued against the Commissioner, the majority of which will be contested. The Commissioner maintains provisions to meet the costs of uninsured liabilities and legal costs and considers that there is no need to make further provision for these claims.

Prior to 1992, the former Police Authority was insured through Municipal Mutual Insurance Ltd (MMI) as part of Cumbria County Council's wider insurance contract. In September 1992, MMI ceased underwriting operations and a scheme of arrangement was put in place to achieve a solvent run off of the company's assets in meeting future claims arising from the period where MMI provided insurance cover, in which Cumbria County Council agreed to participate.

On the 13 November 2012 the directors of MMI announced that, following a supreme court judgement against MMI relating to their liability for asbestos related claims where they were the insurance provider at the time of exposure, achievement of a solvent run off would not be possible. As a result the directors triggered MMI's Scheme of Arrangement (the Scheme), which sets out the arrangements for the administration of MMIs liabilities in the event that a solvent run off was not achieved.

The Scheme provides that following a 'trigger event' a levy may be imposed on all claims settled on behalf of Authorities since 1993 and that future claims will be settled at a reduced rate. Following an actuarial review of potential liabilities, Ernst and Young, the Scheme's administrators, have determined that an initial levy at the rate of 15% will be imposed. Based on the position at the 31st March 2013 the Commissioner's liability is calculated at £45k, for which a provision has been made in the 2012-13 accounts. The Commissioner will also be liable for the levy of 15% from future claims attributable to him and there is the potential that the levy percentage will need to be revised, dependent on the overall level of future claims, which would further impact on the Commissioner's liability. The Commissioner maintains an insurance reserve to meet unknown insurance liabilities which will be used, in part, to meet further liabilities arising from the MMI Scheme.

Redundancy Costs

In response to future reductions in government funding it will be necessary to further reduce the number of police staff. It is anticipated that the reduction will be primarily achieved through a combination of voluntary and compulsory redundancies. Redundancy costs arising from decisions made up to 31 March 2013 have been recognised in the 2012-13 Comprehensive Income and Expenditure Statement, however a number of reviews are currently ongoing which could give rise to further redundancy costs, although no firm decisions have been made as yet. It is anticipated that future redundancy costs will be met from the earmarked reserve set up for management of change costs the balance of which stood at £2,010k at 31 March 2013.

Injury pensions

A recent tribunal case regarding the payment of injury pensions to a retired police officer has highlighted a conflict between police (injury benefits) regulations and social security legislation. The implication of the ruling is that police injury benefits should no longer be reduced by entitlement to social security benefits. At this stage it is unclear if the decision will have a retrospective impact on police organisations or if the change will be implemented on a future claims basis only. In the absence of further guidance from the Home Office and Department for Work and Pensions, this matter has been treated as a contingent liability in the 2012-13 statement of accounts.

38 Trust Funds

Members of the Constabulary are appointed as trustees for a number of Trust Funds. The aim of the funds is to assist members and ex-members of the force by offering grants and loans to those who suffer financial hardship. Income to the funds is generated principally by contributions made by serving officers and donations made by members of the public. The funds are invested in a mixture of interest earning bank accounts and listed securities. The funds are not assets of the Commissioner and are not included in the Balance Sheet.

The funds are overseen by a Management Committee, which includes representation from the Police Federation and Superintendents Association. As at 31 March 2013, 74% of the officers in the Constabulary were members of the Funds. Details of the principal funds are listed in the table below for year ended 31 December 2012 for information only.

	Balance 01.01.12 £'000	Receipts 2012 £'000	Payments 2012 £'000	Balance 31.12.12 £'000
Cumbria Constabulary Trust Funds				
- Benevolent Fund	81	185	(16)	250
- Mutual Aid	59	78	(73)	64
- Mutual Aid Fund	94	10	(4)	100
(Death Benefit Scheme)				
	234	**273**	**(93)**	**414**

The comparative figures for the year ended 31 December 2011 were as follows:

	Balance 01.01.11 £'000	Receipts 2011 £'000	Payments 2011 £'000	Balance 31.12.11 £'000
Cumbria Constabulary Trust Funds				
- Benevolent Fund	68	23	(10)	81
- Mutual Aid	65	77	(83)	59
- Mutual Aid Fund	95	5	(6)	94
(Death Benefit Scheme)				
	228	**105**	**(99)**	**234**

39 Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI contracts).

	2011-12 £'000	2012-13 £'000
Technology Schemes		
Command and Control	134	20
Computer Hardware & Infrastructure	437	703
Finance & Business Systems Upgrade	382	103
Holmes II	22	9
Intelligence Systems - Sleuth	7	0
ICCS - Integrated Command & Control System	0	81
Mobile Working	872	122
Executive Platform	0	5
Information Security	0	20
ICT Delivery	0	85
Enhanced Video Conferencing	0	146
Police National Database	19	8
	1,873	**1,302**
Vehicles Replacement Scheme	**853**	**988**
Building Schemes		
Allerdale Rural deployment Centre	142	672
Fire Behavioural & Public Order Training Facility	197	4
Headquarters - The Green Car Park	(26)	0
Headquarters - Central Services Refurbishment	108	1
Ambleside Police Station Alterations	0	18
South Estate - Kendal	873	136
South Estate - Barrow	0	430
Miscellaneous Property Works	1	0
	1,295	**1,261**
Equipment Schemes		
Automatic Number Plate Recognition	46	27
CID Specialist Equipment	0	60
	46	**87**
Intangible Assets		
Automatic Number Plate Recognition	2	0
ICCS - Integrated Command & Control System	0	117
Command and Control System	34	0
Computer Hardware & Infrastructure	32	61
Finance & Business Systems Upgrade	2	63
Intelligence Systems - Sleuth	2	0
Mobile Working	19	0
Police National Database	3	0
	94	**241**
Total Capital Expenditure	**4,161**	**3,879**

Capital Financing

The table below illustrates the resources used to finance capital expenditure. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Commissioner, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Commissioner that has yet to be financed. The CFR is analysed below.

	2011-12 £'000	2012-13 £'000
Opening Capital Financing Requirement	17,396	17,931
Capital investment		
Property, Plant and Equipment	4,067	3,638
Intangible Assets	94	241
Sources of Finance		
Capital receipts	(471)	(139)
Government grants and other contributions	(1,117)	(632)
Sums set aside from revenue:		
- Direct revenue contributions	(1,701)	(2,972)
- Minimum revenue provision	(337)	(377)
Closing Capital Financing Requirement	**17,931**	**17,690**
Explanation of Movements in Year		
Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	535	(241)
Increase/(decrease) in Capital Financing Requirement	**535**	**(241)**

40 Accounting Standards that have been Issued but have not yet been Adopted

For 2012-13, the following accounting policy changes need amendment to be reported relating to:

- amendments to IAS 1 Presentation of Financial Statements (other comprehensive income, June 2011),
- amendments to IFRS 7 Financial Instruments disclosures (offsetting financial assets and liabilities, December 2011),
- amendments to IAS 12 Income Taxes (deferred tax: recovery of underlying assets, December 2010),
- amendments to IAS 19 Employee benefits (June 2011), and
- IFRS 13 Fair Value Measurement (May 2011).

In the Financial Statements for 2013-14, the effect of the change will be assessed and where necessary, the comparative figures restated.

41 Exceptional Item

The 2012-13 Comprehensive Income and Expenditure Statement (page 37) and comparative information for 2011-12, includes an exceptional item in respect of termination payments (redundancy/compensation for loss of employment and enhanced pension costs) made as a result of the Constabulary's change programme. The amount of £1,134k (£1,768k in 2011-12) is made up of £833k in respect of exit packages paid or accrued in 2012-13 (£1,536k in 2011-12) and £301k net movement in contribution to/from a provision in respect of probable obligations arising from decisions made in 2012-13 where the individuals will leave the Constabulary in 2013-14 and for which a reasonable estimate can be made of the amount of the obligation (£232k in 2011-12), see notes 32 and 33 above.

42 Prior Period Adjustment

During 2012-13 there have been no prior period adjustments relating to the core financial statements (pages 36-39). A number of minor changes have been made to supporting notes to the accounts to reflect a refinement in the analysis, the overall totals of the notes remain unchanged. The notes that have changed are Debtors (note 14), Creditors (note 16) and the Subjective Analysis (note 25b).

	Amount Reported in 2011-12 Statements £'000	Reclassification £'000	Reallocation of Police Authority £'000	Amount Reported in 2012-13 Statements £'000
Note 14 - Debtors				
Other Police/Local Authorities	311	73	0	384
Other Entities and Individuals	5,602	(73)	0	5,529
Analysis of Other Entities & individuals				
Goods and Services	659	(73)	0	586
Note 16 - Creditors				
Central Government Bodies	(2,025)	(12)	0	(2,037)
Other Police/Local Authorities	(277)	(327)	0	(604)
Other Entities and Individuals	(8,402)	339	0	(8,063)
Analysis of Other Entities & individuals				
Goods and Services	(3,246)	339	0	(2,907)
Note 25b - Subjective Analysis				
Police Authority Costs	806	0	(806)	0
Police Staff Pay and Allowances	26,968	(3,066)	570	24,472
PCSO Pay and Allowances	0	3,066	0	3,066
Other Employee Costs	1,954		14	1,968
Premises	3,722		2	3,724
Transport	2,676		41	2,717
Supplies & Services	9,369		151	9,520
Agency and Contracted Services	788		(1)	787
Support Services	122		24	146
Fixed Asset Charges	6,730		5	6,735

Police Officer Pension Fund Account

Fund Account

This statement provides information on transactions on the Police Pension Fund Account for the 2012-13 financial year together with comparative information for 2011-12.

	2011-12 £'000	2012-13 £'000
Contributions Receivable		
Employer		
- Contributions at 24.2% of Pensionable Pay	(10,364)	(9,987)
Officers' Contributions		
- 1987 Scheme Member Contributions (at 12.25%-12.5%)	(4,081)	(4,325)
- 2006 Scheme Member Contributions (at 10.1%-10.75%)	(514)	(614)
	(14,959)	**(14,926)**
Transferees in from Other Schemes	(289)	(180)
Capital Equivalent charge for ill-health schemes	(141)	(231)
	(430)	**(411)**
Benefits Payable		
Recurrent Pensions	20,112	21,515
Commutations and Lump Sums	5,456	5,796
Other - Adjustments in relation to 1974 Police Boundary Changes	39	0
	25,607	**27,311**
Payments to and on Account of Leavers		
Refund of Contributions	13	0
Transfer out to other schemes	73	84
	86	**84**
Net Amount Payable for the Year	**10,304**	**12,058**
Additional Contribution from the Police & Crime Commissioner	(10,304)	(12,058)
Net Amount Payable (Receivable) for the Year	**0**	**0**

Net Assets Statement

This statement shows the net assets and liabilities of the scheme as at 31 March 2013.

	2011-12 £'000	2012-13 £'000
Current Assets		
Pensions Benefits paid in advance	1,807	1,906
Current Liabilities		
Amount due to the Police & Crime Commissioner	(1,807)	(1,906)
	0	**0**

Notes to the Police Officer Pension Fund Account

Accounting Policies

The Police Pension Fund Accounts have been prepared in accordance with the requirements of the Police Pension Fund Regulations 2007 (SI 2007 No 1932). The Pensions Fund Accounts are administered by the Police and Crime Commissioner and have been prepared on an accruals basis.

Operation of Police Pensions Schemes

The Commissioner operates two Pensions Schemes for Police Officers. These are unfunded schemes, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pension payments as they fall due. The second scheme was introduced in April 2006 with the intention that joint contributions of employers and employees would finance the full costs of pension liabilities. All Police Officers recruited from April 2006 onwards automatically become members of the new scheme and the previous scheme has been closed to new members. Officers who are members of the old scheme are allowed by regulation to become members of the new (2006) scheme if they so wish. Members' contribution rates are between 10.1% and 10.75% for the new scheme and between 12.25% for the old scheme. The financial statements for the Police Officer pension fund account do not take account of liabilities to pay pensions and other benefits after the period end. Details of the Commissioner's long term pensions obligations can be found in the main accounting statements (see Balance Sheet page 38). Detailed disclosure notes regarding the Police Pension schemes can be found in note 19 to the core financial statements (pages 61-66).

Funding of Police Pension Schemes

In 2006-07 a new arrangement was established to fund Police Pensions. This revised arrangement is for both new and existing police officer schemes, but has no effect on the benefit structures of either scheme. The purpose of the change is to smooth fluctuations in costs that would previously have been charged to the Commissioner's Comprehensive Income and Expenditure Statement on a 'pay as you go basis' and to more clearly show the effect of the liability as opposed to current pension payments. Under the revised arrangements the liability for payment of police pensions is removed from the Commissioner and replaced with an employers' contribution, currently set at 24.2% of pensionable pay, which, along with the employee contributions and any transfer values, is paid into the pensions account. The employees' and employer's contribution levels are based on percentages of pensionable pay set nationally by the Home Office and are subject to periodic revaluation by the Government Actuary's Department. Pensions are then paid from this account. The pensions account is balanced to nil annually, with any shortfall met by a top up from the Commissioner, or vice versa. However, the Home Office indemnify the Commissioner against any financial liability arising from a deficit on the Pension Account by providing a grant to the Commissioner equal to the Commissioner's top up. Similarly, any surplus on the Pension Account is ultimately repayable to the Home Office.

Glossary of Terms

Accruals
The concept that income and expenditure are recognised as they are earned or incurred, not as money is paid or received.

ACPO
The Association of Chief Police Officers.

Actuarial Valuation
A valuation of assets held, an estimate of the present value of benefits to be paid and an estimate of required future contributions, by an actuary, on behalf of a pension fund.

Agency Costs
Services which are performed by or for another authority or public body, where the agent is reimbursed for the cost of the work done.

Amortisation
The practice of reducing the value of assets to reflect their reduced worth over time. The term means the same as depreciation, though in practice amortisation tends to be used for the write-off of intangible assets, such as goodwill.

Budget
A statement of the Police and Crime Commissioner's plans in financial terms. A budget is prepared and approved by the Police and Crime Commissioner before the start of each financial year and is used to monitor actual expenditure throughout the year.

Capital Adjustment Account
The CAA records the balance of resources set aside to finance capital expenditure (i.e. Capital Receipts, Minimum Revenue Provision (MRP), Direct Revenue Contributions (DRC) and Deferred Grants Account (DGA)) and also the consumption of resources associated with the historical cost of acquiring, creating or enhancing non-current assets over the life of those assets (i.e. depreciation/impairment).

Capital Expenditure
As defined in section 16 of the Local Government Act 2003 and regulation 25 of the Capital Finance and Accounting Regulations 2003, but broadly expenditure on the acquisition of a non-current asset or expenditure which adds to and not merely maintains the value of an existing non-current asset.

Capital Receipt
Monies received from the sale of capital assets, which may be used to finance new capital expenditure or to repay outstanding loan debt as laid down within rules prescribed by Central Government. Capital Receipts cannot be used to finance revenue expenditure, with the exception that from 1 April 2010, up to 4% of sale proceeds may be transferred to the General Fund to finance costs directly associated with the disposal of the asset.

Cash and Cash Equivalents
Cash is represented by cash in hand and in bank accounts. Cash Equivalents include demand deposits with financial institutions which are highly liquid in that they are repayable without penalty on notice of not more that 24 hours.

Glossary of Terms

CC
The Chief Constable for Cumbria Constabulary.

CC CFO
The Chief Constable's Chief Finance Officer.

CIPFA
The Chartered Institute of Public Finance and Accountancy. The main professional body for accountants working in the public services.

Componentisation
Identifying and depreciating the components of an asset separately if they have differing patterns of benefits relative to the total cost of the asset.

Contingency
A sum set aside to meet unforeseen expenditure.

Creditors
Amounts owed by the Police and Crime Commissioner for goods and services provided which had not been paid for at the end of the financial year.

Debtors
Amounts owing to the Police and Crime Commissioner but not received at the end of the financial year.

DCLG
The Department for Communities and Local Government, responsible for funding elements of Police and Crime Commissioner's specific and external grant aid.

Depreciation
The measure of the wearing out, consumption, or other reduction in the useful economic life of a non-current asset, whether arising from use, passage of time or obsolescence through technological or other changes.

Direct Revenue Contributions (DRC)
Resources provided from the Police and Crime Commissioner's revenue budget to finance the cost of capital projects.

Earmarked Reserves
Those elements of the Police Fund that have been set aside, "earmarked", for specific purposes.

Heritage Assets
A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge or culture.

HMIC
Her Majesty's Inspectorate of Constabulary who are a government agency responsible for monitoring the standards and performance of Constabularies.

Glossary of Terms

Impairment
A reduction in the value of a non-current asset below its carrying amount on the balance sheet.

Leasing
A method of financing expenditure over a period of time. There are two main types of lease:

- Finance Lease - where the risks of ownership are transferred to the lessee and where the assets are recorded in the Police and Crime Commissioner's balance sheet at a current valuation.

- Operating Lease - where the risks of ownership stay with the leasing company and the annual rental charges are made via the Revenue Account.

Minimum Revenue Provision (MRP)
The minimum amount which must be set aside in the Revenue Account each year as a provision for credit liabilities.

Non-current Assets
An asset, which will yield a benefit to the Police and Crime Commissioner for a period of more than one year.

PCC
The Police and Crime Commissioner for Cumbria.

PCC CFO
The Police and Crime Commissioner's Chief Finance Officer.

Pension actuarial gains and losses
For a defined benefit scheme, the changes in actuarial deficits or surpluses that arise because:

- events have not coincided with actuarial assumptions made for the last valuation (experience gains and losses) or
- the actuarial assumptions have changed.

Pension – current service costs
The increase in the present value of a defined benefit's liabilities expected to arise from employee service in the current period.

Pension – defined benefit scheme
A pension or other retirement benefit scheme other than a defined contribution scheme. The scheme rules define the benefits independently of the contribution payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

Pension assets – expected rate of return
For a funded defined benefits scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Glossary of Terms

Pension – interest costs
For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Pension - past service costs
For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Precept
The demands made by the Police and Crime Commissioner on the district councils who are the billing authority in relation to the collection of council tax.

Provision
An amount set aside to provide for a liability which is likely to be incurred, although the amount and date of that liability are uncertain.

Public Works Loan Board (PWLB)
A Government agency which provides longer term loans to Local Authorities at interest rates which are only slightly higher than those at which the government itself can borrow.

Reserves
An amount set aside for a specific purpose and carried forward to meet expenditure in future years. The Police Fund represents accumulated balances which may be used to support future spending.

Revaluation Reserve
The revaluation reserve records the unrealised net gain from revaluation of non-current assets made after 1 April 2007. The balance is made up of individual credit balances associated with specific assets and will be equal to the difference between the current value net book value (NBV) and the historic cost NBV for all assets.

Revenue Support Grant
A grant from the Department of Communities and Local Government (DCLG) towards the cost of Police and Crime Commissioner services.

SERCOP
The CIPFA Service Reporting Code of Practice. It was introduced as part of the Best Value Regime to bring about more consistent accounting treatment of costs and to facilitate more meaningful financial comparisons between Authorities.

The Commissioner
The Police and Crime Commissioner for Cumbria.

TPA
Territorial Policing Area.

CUMBRIA
POLICE & CRIME COMMISSIONER
PC
POLICE

CUMBRIA CONSTABULARY
SAFER STRONGER CUMBRIA

The Chief Constable for Cumbria Constabulary

Annual Statement of Accounts 2012-13

Audit and Standards Committee 23rd September 2013

Report of the Chief Finance Officer

1. Introduction and Background

1.1 This report sets out for the Chief Constable and members of the Audit and Standards Committee, those areas of governance and audit pertaining to scrutiny and formal approval of the 2012-13 Statement of Accounts. This report covers the single entity financial statements of the Chief Constable for Cumbria Constabulary. The report sets out the opinion of the Chief Constable's appointed auditor and amendments made to the Accounts and accompanying governance statement as a consequence of the findings of the audit and post balance sheet events. It also sets out information provided to Ms Martlew, the Chief Constable's appointed auditor, as part of the regulatory requirement for a letter of representation.

1.2 The report includes an appendix that provides a narrative on the financial statements (appendix a). The appendix aims to support members of the Audit and Standards Committee in undertaking their assurance role by providing a narrative in respect of the sources of assurance available to them and on the substantive issues that have been considered in respect of the production of the financial statements. For 2012-13 this narrative specifically focuses on the statutory changes from November 22nd and the accounting implications of the Commissioner and Chief Constable being established as separate corporate entities. This statutory change has been accompanied with very limited guidance and regulatory complexities that has presented the most significant element of risk to the 2012-13 financial statements.

2. Appointed Auditor's Audit Findings Report

2.1 Preceding this item on your agenda is the Audit Findings Report from Ms Gina Martlew, of Grant Thornton UK LLP, the Chief Constable's appointed auditor. Ms Martlew reports on her completion of the annual audit of the Statements of Account for 2012-13. The Chief Constable and members of the Audit and Standards Committee will be pleased to see her intention, based on her findings to date, to issue unqualified audit opinions in respect of the Statement of Accounts for the year to 31 March 2013 and in respect of the Chief Constable's arrangements to secure Value for Money.

3. Formal Approval of the Audited Statements

3.1 The Statement of Accounts were authorised by the Chief Finance Officer on 29th June 2013 in accordance with the 2011 Accounts and Audit Regulations. The audit having now been completed, the Chief Finance Officer is required to again certify the statements and present them to the Chief Constable for formal approval. Prior to certification the Chief Constable will take into consideration the Audit Findings Report from Ms Martlew. The Chief Constable will also take into consideration the views of members of the Audit and Standards Committee. The Committee will receive the Statement of Accounts and the Audit Findings Report. They will consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Chief Constable.

4. Amendments to the Statements following Audit

4.1 The primary financial statements are the movement in reserves statement (MIRS), the comprehensive income and expenditure statement (CI&ES), the balance sheet and cash flow statement. There has been an amendment to these primary statements within the Chief Constable's accounts in respect of the treatment of pension liabilities and accumulated absences liabilities, which has arisen as a result of the absence of a statutory override to reverse these liabilities within the Chief Constable's accounts. At the time of approval of the accounting statements no clear guidance had been issued in relation to the accounting treatment of such transactions.

4.2 The absence of guidance has also been an issue in respect of the audit of this transaction within the financial statements. The approach taken by the auditors has been to

review financial statements across all client groups. Discussions have then taken place with their national technical team and the audit commission to determine an appropriate interpretation of how the transaction could reasonably be reported. The auditor's preferred approach was discussed with finance staff in August and the amendment has been made within the financial statements, there have been no other amendments to the primary financial statements and only a limited number of amendments have been made within supporting information and notes to the statements. These are referred to in the Auditor's report and set out as appendix b to this report.

4.3 The Chief Constable and members of the Committee will also be pleased to note the auditor's conclusions that the accounts and statements were prepared to a good standard and supported by good quality working papers.

4.4 The Auditor's report raises one matter in relation to the internal control environment pertaining to related party transactions. During the 2012-13 financial year some related party disclosures were not received from employees and former employees. Significant efforts were made to obtain a full set of disclosures; however 6 relating to the Constabulary remained unreturned. The auditors have raised that in such circumstances they would expect that other means are taken to determine whether a related party transaction may have occurred. In addition, where related party disclosures are made the Chief Finance Officer will undertake a review to determine whether the disclosure should be reported within the financial statements. The auditors have requested that this review is documented for the working papers where it results in a decision not to disclose. These actions have been carried out for the 2012-13 financial statements and will form part of the accounts closure process.

5. Post Balance Sheet Event

5.1 A post balance sheet event is an event, subsequent to the date of the financial statements, and for which International Financial Reporting Standards and the code require adjustment or disclosure. The attention of the Auditor has been drawn to the following:

5.2 On the 30th August 2013 the contract of Temporary Chief Constable Mr Hyde ended, at which point he reverted to his substantive role of Deputy Chief Constable and came under the jurisdiction of Temporary Chief Constable Mr Lawson. Following consideration of the findings of the independent investigation carried out by the Chief Constable of South Wales Police into the issues which gave rise to the suspension of Mr Hyde, temporary Chief Constable Mr Lawson has determined that Mr Hyde should return to work in the role of

Deputy Chief Constable under a management action plan to ensure that lessons are learnt from the findings of the investigation.

5.3 As a result of the investigation into Mr Hyde's conduct a total of thirty six recommendations were made. Of the recommendations eleven related specifically to Mr Hyde and are being addressed through management action. The remainder are of wider application to the organisation. Whilst actions have already been undertaken in response to many of the recommendations, a joint action plan is being put in place by the Commissioner and Chief Constable to address the organisational recommendations. Progress against the action plan will be reported to the joint Audit and Standards Committee

5.4 Consideration has been given to the implications in respect of the statement of accounts and annual governance statement. The conclusions reached are that the accounts will be amended to reflect a non-adjusting post balance sheet event. The Chief Constable's annual governance statement has also been updated to reflect the development of a joint Constabulary/OPCC action plan to address points of governance raised in the investigation report into the conduct matters by South Wales Police. The recommendations within the report and a summary of the findings have been made public to aid transparency.

5.5 A recent tribunal case regarding the payment of injury benefits to a retired police officer has highlighted a conflict between Police (Injury Benefits) Regulations and Social Security legislation. The implication of the ruling is that police injury benefits should no longer be reduced by the entitlement to social security benefits. At this stage it is unclear whether the decision will have a retrospective impact on police organisations or will be implemented on a future claims basis. In the absence of further guidance from the Home Office and Department for Work & Pensions, this matter has been treated as a contingent liability in the 2012-13 statement of accounts.

6. 2012-13 Governance Statement

6.1 The Chief Constable approved his Governance Statement for the period 22nd November to approval of the 2012/13 Statement of Accounts on 26th June, however the Statement made clear that governance matters would continue to be kept under review against emerging issues.

6.2 The Chief Constable's Governance Statement has now been updated to recognise the findings of the independent investigation undertaken by the Chief Constable for South Wales Police into the conduct of former Temporary Chief Constable Mr Hyde. The

investigation resulted in a total of thirty six recommendations of which twenty five were applicable to the organisational governance arrangements within the Constabulary and those of the Police & Crime Commissioner. In summary the recommendations related to:-

- The approval of time spent out of force and overseas travel in relation to non-core business such as
  work on national policing portfolios.
- Adherence to procurement policies including maintenance of a central contracts register.
- Revision of the Anti-Fraud and Corruption Policy to provide greater clarity.
- Registration of offers of gifts and hospitality.
- Recording of contact with the media.
- The use of social media.
- The use of corporate credit cards.

The governance statement also recognises the development of a joint action plan between the Commissioner and the Chief Constable to address recommendations within the report. The report of the investigating officer is presented on the agenda to this meeting of the Audit and Standards Committee. The Committee, as appropriate to their terms of reference, will receive the joint action plan and have oversight of the implementation of agreed actions.

6.3 The Governance Statement notes that the recommendations of the investigating officer are made with reference to performance management and wider governance arrangements primarily in place at and up to four years prior to 13th September 2012. The introduction of the Police and Crime Commissioner on 22nd November 2012 made substantive changes to the respective role and responsibilities of the Commissioner and Chief Constable. Governance arrangements have undergone a significant review and update as a consequence of this change. In addition, minor changes have been implemented as a consequence of the interim reports of the investigating officer. The Governance Statement also reports that the 2013/14 audit plan includes audit review of the significant areas arising within the report of the investigating officer to ensure that any changes made to policies and processes are robust in respect of internal controls.

7. Letter of Management Representation

7.1 At the conclusion of the audit of the Statement of Accounts, but before an opinion can be given, a 'Letter of Management Representation' is provided to the appointed auditors

by the Chief Constable. The underlying purpose of the letter is to confirm that the financial statements reflect a true and fair view in accordance with international financial reporting. The letter sets out that relevant codes, standards and statutory directions have been complied with and that we have made reasonable estimates and judgements in undertaking accounting entries and disclosures. The letter also confirms that there has been full disclosure of all matters requiring disclosure to our auditors. The Letter of Management Representation is attached at appendix c.

8. Acknowledgements

8.1 The work undertaken in preparing the Statements of Account and supporting the audit for the year places very significant demands on staff within the finance services team. Particular acknowledgement is given to Michelle Bellis, Accountancy Services Manager and Lorraine Holme, Principal Finance Services Officer, for their work in preparing the statements and in securing a clean audit opinion for the Chief Constable's first single entity accounts Thanks also to Ruth Hunter, the Commissioner's Chief Financial Officer, for her advice and support in the production of the accounts. This report also acknowledges the work undertaken by our colleagues in external audit headed by Gina Martlew and Richard McGahon.

9. Recommendations

9.1 Following consideration of the findings and conclusions of the Appointed Auditor it is recommended that:

- Members of the Audit and Standards Committee determine whether there any issues in respect of governance or the statement of accounts that they wish to report to the Chief Constable.

- The Chief Constable signs the audited Statement of Accounts and authorises for publication the Accounts and accompanying Governance Statement.

Roger Marshall
Chief Finance Officer/ Head of Financial Services
10th September 2013

Appendix A

Statement of Accounts Narrative 2012-13

1. Introduction and Background

1.1 The Chief Constable will sign the annual statement of account following audit and the review process by the Audit and Standards Committee. Members of the Audit and Standards Committee will receive a copy of the audited accounts and accompanying governance statement for which they have a review and assurance role. The Statement of Accounts are highly complex technical documents. They take a number of weeks to produce and a similar period of time to audit by a team of technical and experienced staff. The audit process will typically involve support from national technical teams who assess and advise on accounting treatment for complex transactions against the requirements of international financial reporting standards and codes of practice. Within the finance profession, the Statement of Accounts is a very specialist field.

1.2 In this context, this narrative aims to provide a guide to the considerations that the Chief Constable and Members of the Audit and Standard Committee can reasonably be expected to take account of, in carrying out a review process and undertaking to approve the Statement of Accounts. It covers two main areas, sources of assurance for the financial statements and key challenges and issues. These are the areas that influence the dialogue and engagement between the finance staff preparing the accounts and those undertaking the audit. In doing this, the narrative aims to ensure that members have sufficient information to fulfil their assurance role and that the Chief Constable can place reliance on this assurance in approving the Statement of Accounts.

2. Sources of Assurance

2.1 The Statement of Accounts consolidates financial transactions for a financial year and record the position as at 31st March in respect of assets and liabilities including reserves and cash flow. They include a number of year end accounting entries that ensure income and expenditure is presented on an accruals basis, that assets and liabilities are recorded in accordance with accounting standards and

codes and that the financial implications of those assets and liabilities are adjusted such that net expenditure reflects the actual cost funded by external financing (government and the council tax payer). They are accompanied by accounting policies that explain how those transactions and balances have been accounted for and a set of notes that provide further detail on amounts included within the main financial statements.

2.2 Those undertaking a review of the accounts will not usually be in a position to determine whether the presented figures are correct based on a reading of the financial statements and notes. The review processes must therefore place reliance on wider sources of assurance from which it is reasonable to make a judgement that the accounts present a true and fair view. The main sources of assurance that support this process are:

2.2.1 The Chief Finance Officer's (CFO) Annual Review of Internal Audit: The CFO will annually provide to members a report on the effectiveness of the arrangements for audit. In presenting this opinion, the CFO will take into account the opinion of the external auditors on the quality of the internal audit function and how well the function complies with public sector audit standards. The 2012-13 review concluded that **"there are no material shortcomings in the effectiveness of the entirety of the Internal Audit arrangements for the year to 31 March 2013."** This assurance enables members of the Audit and Standards Committee to place reliance on the opinion of the Chief Internal Auditor and the findings of internal audit.

2.2.2 The opinion of the Chief Internal Auditor (CIA): The CIA provides an annual opinion on the internal control environment. The opinion is based on the audit reviews undertaken over the course of the financial year. Audits are risk based and will always include all material financial systems. The findings of the CIA are set out in an annual report that states "**In our opinion the internal controls have operated satisfactorily during 2012/13."** The opinion is based on 14 audits. 8 of those have concluded that compliance with controls is 'good', of the remaining reports 5 have been awarded a 'satisfactory' conclusion and 1 has received a 'fair' conclusion. No audits classed the control environment as weak. Collectively, the findings of financial audits reported to the Audit and Standards Committee and the overall opinion of the Chief Internal Auditor will enable members to make a judgement on the likely integrity of the underlying financial transactions and the financial ledger.

2.2.3 The opinion of the Appointed Auditor: The Appointed Auditor will provide an independent external opinion on the financial statements following the audit process. In forming this audit opinion they will undertake a range of audit work. This will include reconciling the figures within the accounts to the financial ledger, undertaking a computer based analytical review to validate the accuracy of material transactions and undertaking further systems based sample testing of ledger amounts back to the primary financial transaction. The external auditors will also review accounting policies and ensure accounting estimates, manual entries and the presentation of financial information is consistent with policy, financial reporting standards and codes of practice. The external audit is typically undertaken by a team of professionally qualified staff who will audit a number of public and/or private sector clients. They will have access to national technical support and quality controls at a regional and national level to support the integrity of the audit and ensure specialist advice and input is given to the treatment of complex transactions of a technical nature. The annual report of the Appointed Auditor is made to the Chief Constable and Members preceding this item on the agenda an presents an **"unqualified audit opinion"** and that **"the financial statements give a true and fair view."**

2.2.4 The Letter of Representation: The letter of representation is provided at appendix b and referenced in the main body of this report. The letter provides assurances from the Chief Constable to the Appointed Auditor. The letter is written on behalf of the Commissioner by the Chief Finance Officer. That officer, as required under legislation, must be financially qualified. Within the Constabulary, that officer is a member of a professional accountancy body with a requirement to abide by codes of practice, standards and ethics. These arrangements provide assurance that members can place reliance on the representations made by the Chief Finance Officer.

2.3 Collectively, these sources of assurance, where they are operating to the satisfaction of members, can support conclusions in respect of the extent to which the committee is reasonably able to provide the related assurance to the Chief Constable in reviewing the financial statements.

3. Key Challenges and Issues

3.1 The Police Reform and Social Responsibly Act 2011 (PRSRA) established the Police and Crime Commissioner (PCC) and the Chief Constable (CC) as

separate corporate entities on the 22nd November 2012. Prior to this date, the operations of Cumbria Constabulary came within the governance of Cumbria Police Authority as a single statutory entity with a requirement for one Statement of Accounts. The implications of this change are that there is a requirement for the PCC and the CC to have single entity Statement of Accounts and for a consolidated group Statement of Accounts.

3.2 To achieve this, consideration needs to be given to whether income and expenditure and assets and liabilities should be disclosed within the single entity statements of the PCC or the CC. On consolidation any inter-entity transactions must be written out of the group statements. These issues have been further complicated by the absence of a statutory override to enable the CC to enact accounting transactions that are made to ensure that income and expenditure, accounted for according to IFRS and codes of practice, impact on the statements only at the amounts that would be a charge to income during the financial year. These matters have been the primary focus of discussions between finance staff producing the accounts and the external auditors. This paper sets out the key accounting considerations and the rationale that influenced decision making in respect of how these matters should be presented within the statements.

Group Accounts: Determining that the relationship between the PCC and CC is one of control such that the CC is a subsidiary and there is a requirement for group accounts.

i This issue was considered nationally as the overriding considerations are the same for all PCC and CC financial statements. CIPFA guidance following a number of police network events confirmed that that the Constabulary is likely to be treated as a subsidiary. The Code of Practice on Local Authority Accounting defines a subsidiary as an entity that is controlled by another entity. Control is defined in a number of ways, including the power to govern financial and operating policies under statute or an agreement, and the power to appoint or remove the governing body.

ii With regard to the power to govern operating policies the relationship was considered to be more accurately defined as one where the PCC has significant influence rather than control. This is because the PCC influences operational policy by setting the strategic direction for policing through the police and crime plan. It is however difficult to make a case that the relationship is one of control or joint control over those policies given the CC's operational independence. Control is stronger

over finance policy as a result of the PCC's decision making autonomy in respect of the budget, and the controls that operate through the funding agreement between the PCC and CC. In addition and significantly, the PCC has the power to appoint or remove the CC (the governing body). Collectively this was considered to amount to a relationship of control and as such the CC is considered a subsidiary with a requirement for group accounts.

Disclosure of Resources: The extent to which police officers, civilian members of police staff, other police staff and assets should be disclosed with their associated liabilities within the PCC or CC financial statements.

i This issue formed the basis of the most substantive discussions. Expenditure on staffing resources and assets is matched by respective assets and liabilities. The liabilities include issues such as pension fund deficits (staff) and depreciation (assets) that are accounted for on an IFRS basis and adjusted through the statutory override. To produce the accounts decisions had to be taken on:

- the balance of control and economic benefit over resources in order to establish where the primary disclosures should be made
- an appropriate means of charging some of the expenditure from the primary disclosure to the other entity to reflect the shared use of some assets and staff resources
- the means of managing transactions within the CC's accounts in relation to primary disclosures without the ability to make the usual adjustments through the statutory override.

ii Decision making was primarily underpinned by the respective statutory duties and responsibilities of the PCC and CC as set out in the PRSRA 2011 and the Policing Protocol Order (PPO). This was further supported by the governance arrangements put in place on or following 22nd November. The significant governance documents are the scheme of delegation and the funding agreement.

iii Of most significance in regard to the treatment of assets and staffing resources is the issue of control and receipt of economic benefit. The following statutory points were considered to be relevant:

- The Commissioner's functions in relation to policing are to secure the maintenance of the force and ensure that it is efficient and effective. The Commissioner holds the CC to account for his/her functions and the functions of persons under the direction and control of the CC. The Commissioner is also responsible for setting the strategic direction of the force and policing objectives through the police and crime plan.

- The CC has a number of statutory functions, of significance of which is responsibility for maintaining the Queen's peace through the exercise of police powers. Police officers and civilian staff (defined in the PRSRA 2011 as employed solely to assist the force) are directed and controlled by the CC towards policing activity to fulfil these functions. The CC is accountable for supporting the PCC in the delivery of the strategy and objectives set out in the police and crime plan.

- Whilst the Commissioner holds the CC to account in respect of having regard to the police and crime plan, the CC must be consulted by the Commissioner on the plan. It is the CC who will largely determine how those objectives are delivered and the allocation of resources to meet them. The CC is also responsible for having regard to the Strategic Policing Requirement as set by the Home Secretary when exercising and planning policing functions. Overall resource allocations therefore take account of the statutory function of maintaining the Queen's peace, the priorities within the police and crime plan (set by the Commissioner but in consultation with the CC) and the strategic policing requirement. The CC has direction and control of Police Officers and all operational staff in making those decisions.

- In respect of economic benefit, both the Commissioner and the CC obtains benefit from the staffing and assets under the CC's direction and control. The argument for economic benefit, given that staffing resources can only be in one set of accounts, would appear to be stronger in respect of maintaining the Queen's peace. This is further supported by Constables holding office under the crown and the CC being accountable to the law for the exercise of police powers. The CC is also responsible to the public. Further to this, the police and crime plan is now a multi-agency strategy through which services are commissioned across a number of partnerships. The assets and resources of wider partners are not being included on the PCC's balance sheet. The policing protocol order

states that, 'at all times the Chief Constable, their constables and staff, remain operationally independent in the service of the communities they serve".

- Public management of the police fund rests with the PCC. The PCC and CC share responsibility for effective management of the policing budget and securing value for money. The CC has day to day responsibility for managing allocated budgets and ensuring financial management is consistent with PCC objectives/conditions. Both operationally and financially the PCC has a strategic and accountability role but the CC has operational control within that strategic framework. The CC is responsible for assisting the PCC in planning the force budget. This provides the PCC with control but the CC will have substantial influence. Influence is likely to be more effectively exercised where the force is performing well and meeting strategic objectives, which is the case in Cumbria. In practice most of the objectives will be shared and heavily influenced by the professional opinion of the CC. These matters will be taken into account by the PCC in exercising the statutory responsibility for the police and crime plan.

iv Police officer and civilian staff of the force are required statutorily to be under the direction and control of the Chief Constable irrespective of the legal employer. The CC must exercise his/her powers of direction and control in a way to assist the Commissioner but direction and control rests with the Chief Constable and the requirement to delegate control of those resources is statutory. The direction and control of the CC includes:

- The ability to issue a warrant to an attested officer with which the officer may exercise their police powers
- Decisions in relation to the appointment and dismissal of officers and staff
- Decision concerning the configuration and organisation of policing resources including the deployment of officers and staff
- Total discretion to investigate crimes/individuals
- Decisions on balancing competing operational needs within the framework of priorities and objectives set by the PCC
- Operational decisions to re-allocate resources to meet immediate demand
- The allocation of officers specific duties/responsibilities to meet strategic objectives set by the PCC

v The PCC holds the CC to account and sets priorities/strategic objectives (in consultation with the CC) but the Chief Constable, their Constables and staff, remain operationally independent. The PCC must not fetter the operational independence of the police force and the Chief Constable who leads it. Information required by the PCC from the CC must not fetter the CC's direction and control of the force. The requirement to consult with the PCC on staffing matters only applies to officers/staff above the rank of chief superintendent/police staff equivalents. The PPO also requires the CC to explain to the public the operational actions of officers and staff under their command. The issues of command and direction and control combined with the requirements around operational independence appear to support the CC as the entity that is controlling the majority of staffing resources.

vi As a result of the statutory requirements to vest direction and control with the CC, the scheme of delegation for Cumbria policing area identifies all police staff that are considered to fall within the definition of civilian staff. The PCC must and has vested all decision making in respect of these staff with the CC. The funding agreement between the PCC and CC passes budget responsibly in respect of these staff to the CC and provides the CC with autonomy of decision making in respect of those budgets. **On the basis of direction and control, and on the basis that the primary purpose of these staff and Constables is to maintain the Queen's peace, the costs of police officers and civilian staff are included on in the accounts of the CC. Matching principles require related pension liabilities to be treated in the same way.**

vii Police staff that are not employed solely to assist the force (primarily support staff) are identified within the Cumbria policing area as resources for which the PCC and PCC's Chief Executive have ultimate decision making responsibility. The scheme of delegation does not give direction and control to the CC for this group of staff although the CC may have responsibility for line management. All decision making rests with PCC and the Chief Executive. The budgets for these staff are retained by the PCC under the terms of the funding agreement between the PCC and the CC. The CC has no autonomy in respect of budgets, structures, terms etc in respect of these staff. **With regard to the accounts, this staff group is recognised as expenditure within the accounts of the PCC with matching pension fund liabilities.**

viii The single entity accounts are charged with a recharge to reflect the cost of services provided by one entity to another entity where a single team provides support on a shared service basis. This is primarily in respect of support staff expenditure, with costs initially disclosed in the accounts of the PCC, but where services are provided to both the PCC and the CC. A charge is made to the CC to reflect the cost of service to the Constabulary.

ix Capital assets for the balance sheet fall into three main areas, land and property, fleet and ICT. The treatment of these assets is based on the COPLAA non-current assets. The relevant considerations have been:

- Asset recognition: assets are recognised on the balance sheet if it is probable that the future economic benefits or service potential associated with the item will flow to the entity.
- Finance lease: transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not be eventually transferred.
- Operating lease: a lease other than a finance lease
- Whether the lease is a finance lease or operating lease depends on the substance of the transaction rather than the form of the contract.

x A review of the control of assets and the risks and rewards pertaining to assets has determined that assets will be disclosed on the balance sheet of the PCC. This has been based on:

- Land and property assets: the PCC effectively acts as a landlord and is the recipient of the economic benefit from the asset in terms of appreciation in value and the capital receipt from disposal. The PCC makes all decisions with regard to property disposal and acquisition. The PCC formally approves the capital strategy and property strategy and retains the budgets for estate management and maintenance. The CC can only enter into contracts to acquire property with the express consent of the PCC and may not own land.

- Fleet and ICT assets are controlled by the PCC. The CC has no autonomy to act in respect of any capital budgets. These are all retained by the PCC. The PCC makes all decisions on capital strategy and all capital acquisitions are subject to approval by the PCC through a business case. The CC presents to the PCC

asset management strategies in respect of ICT and Fleet but has no independence of action or any authority to enter into contracts without the approval of the PCC. No approval to enter into any contracts has been given. On disposal of assets the PCC is the beneficiary of sale proceeds and funds from his budget any acquisitions.

xi These arrangements are set out within the scheme of delegation and the funding agreement that governs the relationship between the PCC and CC. A charge is made from the PCC to the CC to reflect the CC's use of PCC assets. **All assets are considered to meet the definition of an operating lease with the PCC as the lessor and the CC as lessee.**

Debtors, Creditors and Cash

i The arrangements between the PCC and CC do not provide any authorisation for the CC to enter into contracts. The PCC operates a bank account and makes all arrangements for the procurement of supplies and services. The making of creditor payments, recovery of debt and management of cash is transacted by the PCC on behalf of both the PCC and the CC. The CC undertakes a number of activities that generate income. The PCC statutorily is the recipient of all income and as such income collection and generation activities are undertaken on behalf of the PCC and all income is receipted to the PCC's bank account. The CC is unable to borrow and has no powers to undertake treasury transactions. The funding agreement between the PCC and CC is made on the basis of cash flow. This means that the CC receives a funding amount up to a maximum level of defined budget but can only claim what has been spent. The PCC makes all payments on behalf of the CC and as such the CC will not have any cash balances.

ii To reflect these arrangements within the statement of accounts, the PCC's financial statements disclose all external debtor and creditors, reflecting the PCC's liability in respect of these transactions. Both the PCC and CC's financial statements disclose any associated debtor and creditor liability between the entities. These transactions are primarily in respect of the CC's liability to the PCC for external debtors where the CC has utilised the supply or service or the PCC's liability to the CC to fund accrued expenditure under the terms of the funding agreement. The PCC's financial statements show all cash transactions other than the movement through the CC's cash flow statement for the net deficit on the C&IES.

Other Relevant accounting concepts

i True and fair view: faithful representation of the effects of transactions, other events and conditions in accordance with the definition and recognition criteria for assets, liabilities, income and expenses set out in the code.

ii Objectives of financial statements: to show the results of the stewardship and accountability of PCC/CC and management of resources entrusted to them.

iii The treatment of assets and expenditure and associated liabilities has been based on the above accounting concepts as a first principle. This means that we have tried to adhere to what the reader of the accounts would expect to see, irrespective of the further complication of absence of a statutory override for the CC. The main impact of adhering to these accounting concepts has been that the CC's accounts contained staffing expenditure for police officers and staff and a matched pension liability. Without the statutory override the pension liability is unable to be written out in the usual way as a statutory adjustment from the accounting basis to the funding basis (i.e. the actual costs that must be borne during the financial year).

iv The funding and group relationship between the Commissioner and Chief Constable means that this regulatory complexity has implications for the Chief Constable's single entity accounts and the group accounts. At the time of approval of the accounting statements no clear guidance had been issued in respect of the treatment of this transaction. There were three potential routes for managing this issue within the financial statements:

- Disclosing the liability with the PCC single entity statements: this was felt to fail to adhere to the accounting concepts set out above based on the justifications presented earlier in this narrative
- Disclosing the liability in the CC accounts with a debtor entry between the PCC and CC: this position would have required evidence of the CC's ability to enforce the debt. Audit opinion was that this approach would at minimum have required a signed agreement between the PCC and the CC such that the PCC agreed to underwrite the debt. This presented a number of difficulties, significantly that no such agreement was in place and the reasonableness of requiring the PCC to underwrite the debt.

- Disclosing the liability within the CC accounts and effecting the entry through a movement in reserves: this is the position taken by Cumbria and that was felt to most closely reflect the nature of the arrangement and overriding accounting transactions.

v In adopting the latter option, the key issue was the absence of any statutory override to enact the movement in reserves or any guidance with regard to an alternate methodology on which basis the transaction could be made. The treatment adopted was therefore to make the transaction and account for it on the basis of an adjustment in the accounting basis and the funding basis to reflect funding between the PCC and the CC. This is substantially to account as if the statutory override was in place and create an unusable reserve. In making the transaction this way, the finance team was fully cognisant of the likely need, post audit, to undertake some amendment to the transaction, once the auditors had determined their view.

vi The absence of guidance was also an issue in respect of the audit of this transaction within the financial statements. The approach taken by the auditors has been to review financial statements across all client groups. Discussions have then taken place with the national technical teams and the audit commission to determine an appropriate interpretation of how the transaction could reasonably be reported. The auditor's preferred approach was discussed with finance during the audit and an amendment has been made within the financial statement. The amendment has been to keep the presentation of the transaction through the movement in reserves statement, but to effect the movement as a negative usable reserve rather than a unusable reserve. The statutory override is expected to be in place for the 2013-14 accounts, at which point the transaction will be re-stated as a prior year adjustment and the entry recorded in unusable reserves.

Accounting Polices and Notes to the Accounts

i The accounting policies adopted by both entities are the same but these are only included in the single entity statements where they apply to transactions included in those statements.

This concludes the narrative on the financial statements.

Misclassifications & disclosure changes – Chief Constable financial statements

In the table below we set out details of misclassification and disclosure changes to the Chief Constable's financial statements we identified during the audit and which management have adjusted for

1	Misclassification	£1,042.937m	Unusable reserves	The balance sheet and Movement in Reserves Statement (MiRS) shows the pension liability for LGPS (£28.802m) and Police Officers (£1,010.490m) , and the accumulated absences liability (£3.645m) as unusable reserves. This is in effect applying a statutory override to remove these as real costs. However, the Chief Constable does not have local authority status and therefore a statutory override cannot be applied. These therefore show as real cost and should be negative usable reserves.
2	Disclosure	N/A	Introduction by the CC Chief Finance Officer	Wording amended to show that the financial statements have been produced on the basis of merger accounting and not acquisition accounting as stated in the draft financial statements.
3	Disclosure	N/A	Statement of Accounting Policies	The accounting policies state that the Movement in Reserves Statement (MiRS) has been produced as if the Chief Constable did have local authority status, and therefore a statutory override. This is not the case and the wording has therefore been amended.
4	Disclosure	£613,000	Note 16 – Remuneration for Senior Employees	A number of staff who were part of the Chief Constable's decision making process were included in this note in the PCCs accounts but would be more appropriately disclosed in the Chief Constable's accounts.
5	Misclassification	N/A	Note 18 – Exit packages	An agreed exit package in the band £100,001 - £150,000 was incorrectly shown as a compulsory redundancy. It was a voluntary redundancy and should have been included in 'Other departures agreed'.
6	Disclosure	N/A	Various	Various minor changes were made to supporting notes to improve presentation and ensure consistency.

Appendix B.

The Chief Constable for Cumbria Constabulary
Financial Statements for the year ended 31 March 2013

This representation letter is provided in connection with the audit of the financial statements of The Chief Constable (CC) for Cumbria Constabulary for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting.
We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.

ii We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.

iii We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

iv Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

v We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.

vi We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).

vii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the code.

viii All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the code requires adjustment or

disclosure have been adjusted or disclosed. In particular attention is drawn to the following

On the 30th August 2013 the contract of Temporary Chief Constable Mr Hyde ended, at which point he reverted to his substantive role of Deputy Chief Constable and came under the jurisdiction of Temporary Chief Constable Mr Lawson. Following consideration of the findings of the independent investigation conducted by the Chief Constable of South Wales Police into the issues which gave rise to the suspension of Mr Hyde, temporary Chief Constable Mr Lawson has determined that Mr Hyde should return to work in the role of Deputy Chief Constable under a management action plan to ensure that lessons are learnt from the findings of the investigation.

As a result of the investigation into Mr Hyde's conduct a total of thirty six recommendations were made. Of the recommendations eleven related specifically to Mr Hyde and are being addressed through management action. The remainder are of wider application to the organisation. A joint action plan has been put in place by the Commissioner and Chief Constable to address the organisational recommendations. Progress against the action plan will be reported to the Joint Audit and Standards Committee.

A recent tribunal case regarding the payment of injury pensions to a retired police officer has highlighted a conflict between police (injury benefits) regulations and social security legislation. The implication of the ruling is that police injury benefits should no longer be reduced by entitlement to social security benefits. At this stage it is unclear if the decision will have a retrospective impact on police organisations or if the change will be implemented on a future claims basis only. In the absence of further guidance from the Home Office and Department for Work and Pensions, this matter has been treated as a contingent liability in the 2012-13 statement of accounts.

ix We have not adjusted the misstatements brought to our attention in the Audit Findings report, which are considered to be immaterial to the results of the CC and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

x We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xi We believe that the CC's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the CC's needs. We believe that no further disclosures relating to the CC's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xii We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. unrestricted access to persons within the CC from whom you determined it necessary to obtain audit evidence.

xiii We have communicated to you all deficiencies in internal control of which management is aware.

xiv All transactions have been recorded in the accounting records and are reflected in the financial statements.

xv We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xvi We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the CC and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xvii We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the CC's financial statements communicated by employees, former employees, regulators or others.

xviii We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xix We have disclosed to you the entity of the CC's related parties and all the related party relationships and transactions of which we are aware.

Annual Governance Statement

xx The Annual Governance Statement presented to the Audit and Standards Committee in June has now been amended to recognise the findings of the independent investigation conducted by the Chief Constable for South Wales Police into the conduct of former Temporary Chief Constable Mr Hyde. The investigation resulted in a total of thirty six recommendations of which twenty five were applicable to the governance arrangements within the Constabulary and those of the Police & Crime Commissioner. In summary the recommendations related to

- The approval of time spent out of force and overseas travel in relation to non-core business such as work on national policing portfolios.
- Adherence to procurement policies including maintenance of a central contracts register.
- Revision of the Anti-Fraud and Corruption Policy to provide greater clarity.
- Registration of offers of gifts and hospitality.
- Recording of contact with the media.
- The use of social media.
- The use of corporate credit cards.

Governance arrangements have already been strengthened and a joint action plan has been put in place by the Commissioner and Chief Constable to address the organisational recommendations. Progress against the action plan will be reported to the Joint Audit and Standards Committee.

The amended Annual Governance Statement has been presented to the September meeting of the Joint Audit & Standards Committee and are satisfied that the Annual Governance Statement (AGS) fairly reflects the CC's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS

Approval

The approval of this letter of representation was minuted by the Chief Officer Group at its meeting on 23 September 2013.

Signed by The Chief Constable for Cumbria Constabulary

Mr Bernard Lawson
Temporary Chief Constable
23 September 2013

CUMBRIA CONSTABULARY
SAFER STRONGER CUMBRIA

The Chief Constable for Cumbria Constabulary

Statement of Accounts | 2012-13

(Single Entity Statements)

The Chief Constable for Cumbria Constabulary

Statement of Accounts

(Single Entity Statements)

2012-13

CUMBRIA CONSTABULARY
SAFER STRONGER CUMBRIA

The Chief Constable for Cumbria Constabulary

Statement of Accounts 2012-13

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Annual Governance Statement(s)

The Annual Governance Statements (AGS) for Chief Constable and the Former Police Authority have been prepared in accordance with the Accounts and Audit Regulations 2011. In the Accounts and Audit (England) Regulations 2011, SI2011 No 817 – regulation 4(4) provides that the AGS is to accompany accounting statements. A link to the two separate AGS is provided below:

- Chief Constable for Cumbria Constabulary– AGS 2012-13
  http://www.cumbria.police.uk/Admin/uploads/attachment/files/FOI/Accounts/The_Chief_Constable_for_Cumbria_Constabulary_-_Annual_Governance_Statement_2012-13.pdf

- Cumbria Police Authority & Constabulary – AGS 2012-13
  http://www.cumbria-pcc.gov.uk/governance-transparency/audit-of-accounts.aspx

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Bengali

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Explanatory Foreword

Introduction

The Police and Crime Commissioner for Cumbria was established as a statutory entity on 22 November 2012 under the Police Reform and Social Responsibility Act 2011 (PRSRA 2011). The PRSRA 2011 provides that there will be a Police and Crime Commissioner for each police area with responsibility for ensuring the maintenance of the police force for the area, securing that the police force is efficient and effective and holding the Chief Constable to account. The Commissioner also has wider responsibilities than those solely relating to the police force, including specific responsibility for the delivery of community safety and crime reduction and wider responsibility for the enhancement of the delivery of criminal justice in their area.

The PRSRA 2011 also established the Chief Constable as a statutory entity, distinct from the Commissioner and with operational independence. The Chief Constable is responsible for maintaining the Queen's peace and the exercise of police powers. The Chief Constable is accountable to the Commissioner for leadership of the force, the delivery of efficient and effective policing and the management of resources and expenditure for the police force.

The Commissioner receives all funding, including government grants, council tax income and other sources of income related to policing and crime reduction. All funding for the Chief Constable must come from the Commissioner. The Commissioner will also set the strategic direction and is responsible for the totality of policing in the force area. This creates a subsidiary relationship between the Commissioner and the Chief Constable. As such, the Commissioner must publish a set of group consolidated accounts in addition to single entity accounts. The Chief Constable must publish single entity accounts and provide information to the Commissioner to support the publication of group accounts.

In the 2011-12 accounts for the Police Authority, a post balance sheet event was included in relation to the suspension of the temporary Chief Constable Mr Hyde on 13 September 2012. On 30 August 2013 the contract of Mr Hyde as temporary Chief Constable came to an end at which point he reverted to his substantive role as Deputy Chief Constable and came under the jurisdiction of Temporary Chief Constable Mr Lawson. Following consideration of an independent investigation into the allegations which gave rise to the suspension, Temporary Chief Constable Mr Lawson determined that Mr Hyde should return to work in the role of Deputy Chief Constable under a management action plan. These matters gave rise to a post balance sheet event in the 2012-13 accounts as detailed on page 29.

These accounts are the single entity accounts of the Chief Constable for Cumbria Constabulary. They are published in accordance with the requirements of the Accounts and Audit regulations 2011. The aim of the financial statement is to demonstrate to the reader the overall financial position of the Chief Constable at the end of the financial year together with the cost of the services provided during the year and the financing of that expenditure.

Background

The Chief Constable incurs revenue expenditure which is funded by a contribution from the Police and Crime Commissioner. Revenue expenditure can broadly be described as day to day running costs and includes the costs of operational policing.

Capital expenditure, which consists of fixed assets providing a benefit for more than one year, such as property, vehicles, equipment and ICT, is incurred by the Police and Crime Commissioner and is recorded in the single entity accounts of the Commissioner.

Explanatory Foreword

The Accounting Statements

The Chief Constable's accounts for the 2012-13 financial year are set out on the following pages. A brief explanation of the various parts of the statement and the different accounts is set out as follows:-

1. Introduction by the CC Chief Finance Officer - Page 6

This contains a brief description of the sources and applications of revenue funds for 2012-13 together with a summary of the final position and an outlook for the future.

2. Responsibilities for the Accounting Statements - Page 11

This lays out the respective responsibilities of the Chief Constable (CC) and the Chief Constable's Chief Finance Officer (CC CFO), with regards to the financial affairs of the Constabulary and for the preparation of the Statement of Accounts.

3. Statement of Accounting Policies - Page 16

Accounting policies can be defined as *"the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements".* A range of accounting policies and principles, which describe accounting treatments, supports the accounts in this statement. Unless otherwise stated, the accounting treatment is consistent with the guidance notes issued by CIPFA on the application of the various International Financial Reporting Standards (IFRS's) and the Code of Practice on Local Authority Accounting (the Code).

4. Movement in Reserves Statement – Page 25

This statement shows the movement in the year on the different reserves held by the Chief Constable. Under the terms of the funding agreement between the Commissioner and the Chief Constable, the majority of usable reserves i.e. those reserves that may be used to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use, are controlled by the Commissioner and are recorded in the balance sheet of the Commissioner. However, the Chief Constable does hold certain usable reserves in relation to pensions and accumulated employee absences, which are not covered by the funding arrangement.

The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Chief Constable's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. Under current legislation only the Commissioner has been granted local authority status, which enables adjustments between an accounting basis and funding basis to be enacted, however there is an intention that this will be granted to the Chief Constable in the future.

5. Comprehensive Income and Expenditure Statement - Page 26

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices. The Chief Constable prepares this statement in accordance with the service expenditure analysis as required by the Service Reporting Code of Practice (SERCOP), a subjective analysis is provided in the notes to the accounts (note 13b).

6. Balance Sheet – Page 27

The Balance Sheet shows the value as at the balance sheet date of the assets, liabilities and reserves recognised by the Chief Constable. This includes a debtor and creditor to reflect the funding relationship between the Commissioner and the Chief Constable. A corresponding creditor and debtor is recognised in the Commissioner's balance sheet and the Commissioner holds a number of reserves to offset these. The Chief Constable's balance sheet also includes negative reserves in respect of pension liabilities for both the Police and Local Government pension schemes and for accumulated absences.

Explanatory Foreword

7. Cash Flow Statement - Page 28

The Cash Flow Statement would normally show the changes in cash and cash equivalents of the Chief Constable during the reporting period. However, under the terms of the funding agreement between the Commissioner and the Chief Constable, all cash and cash equivalents belong to the Commissioner and the Chief Constable is reimbursed for expenditure incurred on a cash basis. The statement therefore shows how the surplus/deficit on the provision of services recorded in the Comprehensive Income and Expenditure Statement of the Chief Constable is reconciled to show a zero cash balance by adjusting for transactions where there is no movement of cash.

8. Notes to the Financial Statements – Page 39

These notes explain in more detail a number of entries in the primary financial statements.

9. Police Officer Pension Fund Accounts – Page 53

The statement sets out the transactions on the Police Officer pension fund account for the year. A page of explanatory notes are also provided.

10. Glossary of Terms - Page 55

This is an explanation of the various technical accounting terms and acronyms, which appear throughout this statement.

Introduction by the CC Chief Finance Officer

I am pleased to introduce the single entity financial Statement of Accounts of the Chief Constable for Cumbria Constabulary for the 2012-13 financial year. This is the first set of accounts setting out the financial position in respect of the Chief Constable. On 22 November 2012 the Police and Crime Commissioner and the Chief Constable were established as separate legal entities with a requirement for single entity accounts. The funding and accountability relationship between the entities meets the definition of a subsidiary for the Chief Constable. This results in a requirement for consolidated group accounts. The financial statement sets out the single entity accounts and has been produced on the basis of merger accounting. This means that the financial statement shows income and expenditure from 1 April 2012, as if the Commissioner and Chief Constable had been in effect as statutory entities for the full financial year.

The statement provides a breakdown of net spending during the year and shows the overall financial position of the Chief Constable as at 31 March 2013. The reporting format is specifically designed to meet the requirements of the Code of Practice on financial reporting. A series of notes are provided to assist readers in their understanding of the statement, whilst the presentational format is designed to make for easier reading by those who access the document through the Chief Constable's website: www.cumbria.police.uk. Readers can also access from the website the Commissioner's consolidated group accounts. The single entity statements for the Commissioner can be accessed from the Commissioner's website: www.cumbria-pcc.gov.uk.

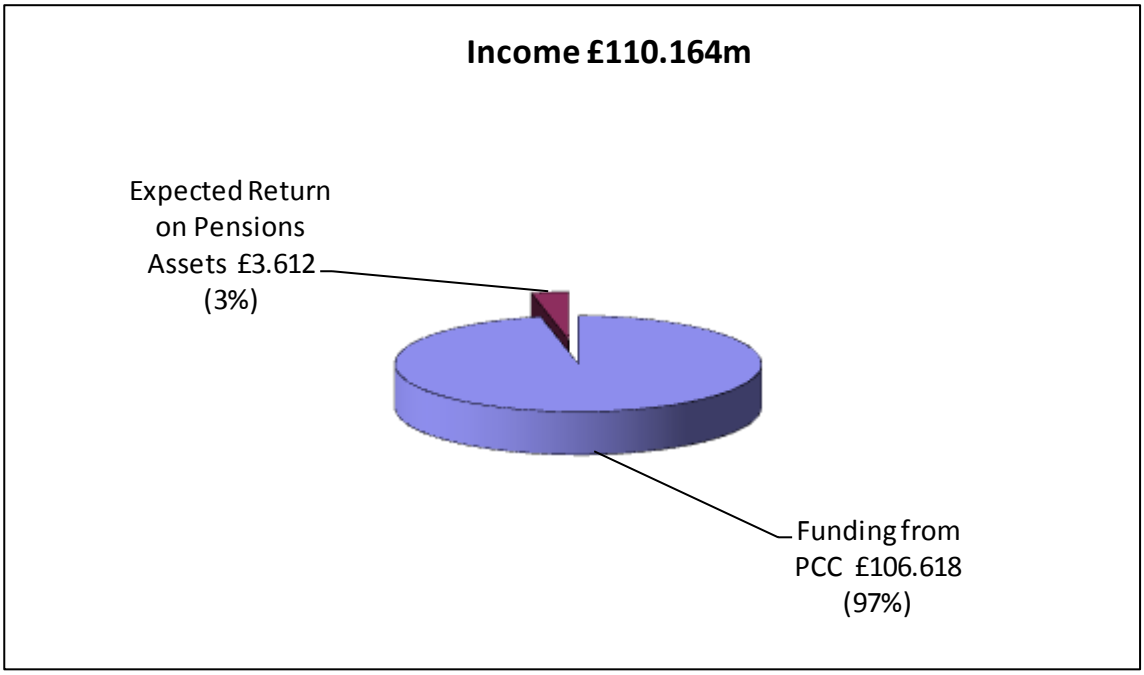
2012-13 Grant Settlement & Budget

Under the provisions of the Police and Social Responsibility Act 2011 the Commissioner receives external funding principally in the form of central government grants and council tax. The Commissioner is responsible for setting the budget and maintaining the force through the provision of funding to the Chief Constable. Details of the 2012-13 grant settlement, the Commissioner's overall budget and the level of Council Tax levied are provided in the Commissioner's group and single entity statements.

Introduction by the CC Chief Finance Officer

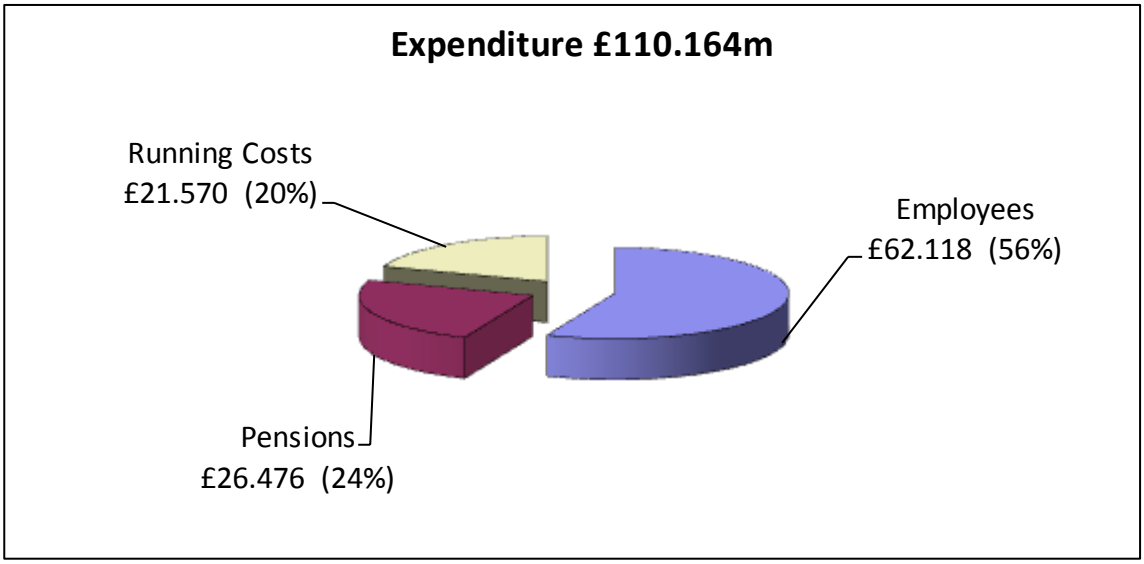
Where the Money Came From

The sources of finance for 2012-13 expenditure are set out in the chart below and illustrate that, other than the share of returns on pension fund assets attributable to the Chief Constable, all of the Constabulary's funding is provided by the Commissioner.



What the Money Was Used For

An analysis of the revenue expenditure for 2012-13 is set out below. The chart demonstrates the large proportion of total costs accounted for by employment (56%) and pension (24%) costs.



The charts above are drawn from the Subjective Analysis of Net Operating Expenditure shown in note 13b, page 44.

Introduction by the CC Chief Finance Officer

The Police Revenue Account

Final revenue expenditure for the financial year is summarised in the table below showing total net expenditure. It also includes capital charges for using fixed assets and pensions adjustments as required by IAS19, together with the necessary financing adjustments to ensure that they do not impact on local taxpayers. The net final outturn for the year amounted to £106,618k, which was balanced by the funding provided by the Commissioner.

Net Expenditure:-	2011-12 £'000	2012-13 £'000
Employee Related Expenditure	68,221	62,184
Pensions Costs	21,562	22,864
Running Expenses	21,766	21,570
Total Net Expenditure	**111,549**	**106,618**
Financed By:-		
Funding Provided By Police and Crime Commissioner	(111,549)	(106,618)
Total Financing	**(111,549)**	**(106,618)**
Contribution to / (from) Constabulary Fund Balance	**0**	**0**

Based on the Constabulary's management accounts for 2012-13 the Chief Constable's operating expenditure in 2012-13 was £3.6m under the original budget. This was principally attributable to a £2.3m underspend on employee costs and a £1.3m underspend on premises, supplies, third party payments and transport budgets. The underspend on employee costs is primarily attributable to the Constabulary operating below establishment for much of the financial year. For 2013-14 workforce plans have been developed supported by a better resourced capability in respect of recruitment. This aims to ensure that officer, PCSO and staff numbers are more closely aligned to the funding provided by the Commissioner.

The Police Capital Account

Under the terms of the funding arrangement between the Commissioner and the Chief Constable, all fixed assets are under the control of the Commissioner. Details of capital expenditure and funding in relation to the acquisition and enhancement of fixed assets, which amounted to £3.8m in 2012-13, are shown in the single entity accounts of the Commissioner.

Pensions Deficit

The Chief Constable's 2012-13 balance sheet shows a combined pensions deficit of £1,039m (£876m in 2011-12) for the LGPS and the Police pension scheme to which its employees and former employees belong. However, statutory arrangements for funding the deficit, through increased contributions over a period designed to balance the pensions account and central Government funding mean that the financial position of the Chief Constable remains healthy.

Introduction by the CC Chief Finance Officer

Financial Outlook

The medium term financial position continues to be challenging as a result of reductions in central government funding.

At the time of setting the 2013-14 budget, the Commissioner's gross income was forecast to be £122.3m, but with an estimated reduction to £118.6m by 2016-17. The 2015 spending review is expected to make further reductions in the total level of resources available. In addition, work is commencing on a fundamental review of formula funding for Police and Crime Commissioners, which could ultimately impact on the resources available to the Constabulary.

The Chief Constable has put in place a Change Programme, which has reviewed all areas of business with the aim of identifying savings, whilst, wherever possible, seeking to protect front line services. Up to the end of 2012-13 £11.5m of savings and efficiencies have been removed from the budget and a further £10m of savings are planned to balance the medium term financial forecast to 2016-17.

Contingencies and Reserves

All usable reserves, which can be used to support service provision, are controlled by the Commissioner and are recorded in the balance sheet of the Commissioner.

The Commissioner formally recognises the need for contingencies against unplanned and planned expenditure in the future which cannot be accurately quantified at the time of closing the accounts. The Commissioner's Police Fund Balance at 31 March 2013 stands at £5.149m. This represents 5% of the net budget and will be held at this level pending the 2014-15 grant settlement. In addition a number of specific earmarked reserves are maintained to address specific areas of expenditure, usually of a non-recurring nature, which must be incurred over a period of years, but which cannot be formally quantified at the time of closing the accounts.

Material Events after the Balance Sheet date

There have been no material events after the date of the Balance Sheet up to the date of my certificate below which have been, or which were required to be, reflected in the Statement of Accounts for the year ending on 31 March 2013.

Acknowledgements

The financial statements were originally authorised for issue by me as CC Chief Finance Officer, on 29 June 2013. Following completion of the audit, they we re-authorised by me on 23 September 2013 and were formally approved by the Chief Constable on the same date.

In closing, it is appropriate to acknowledge the dedication and professionalism of Michelle Bellis Financial Services Manager, Lorraine Holme and the wider finance team in again achieving the closure of accounts and the publication of these Statements against challenging deadlines and complex changes in the financial reporting standards.

It is also appropriate to acknowledge the support and co-operation of the PCC Chief Finance Officer Ruth Hunter in the preparation of these accounts.

Roger Marshall
CC Chief Finance Officer

Introduction by the CC Chief Finance Officer

Further information relating to this publication can be gained by contacting:

Mrs. M. Bellis, CPFA, Chief Constable's Financial Services Manager, Financial Services, Corporate Support Department, Police H.Q. Carleton Hall, Penrith CA10 2AU (Tel: 01768 217020).

This publication is published on the Chief Constable's website and can be accessed by the public from the following web link: www.cumbria.police.uk

The accounts present a true and fair view of the position of the Chief Constable for Cumbria Constabulary as at 31 March 2013 and his income and expenditure for the year there ended.

CC Chief Finance Officer

Roger Marshall CPFA _____ Date _____

The accounts present a true and fair view of the position of the Chief Constable for Cumbria Constabulary as at 31 March 2013 and its income and expenditure for the year there ended.

Temporary Chief Constable for Cumbria Constabulary

Bernard Lawson QPM MSt (Cantab) BSc._____ Date _____

Responsibilities for the Statement of Accounts

1 The Chief Constable's Responsibilities

The Chief Constable is accountable to the Police and Crime Commissioner for the management of resources and expenditure by the police force. All funding for the Chief Constable comes from the Police and Crime Commissioner. The Chief Constable is required to:

- Make arrangements for the proper administration of his financial affairs and to secure that one of his officers has the responsibility for the administration of those affairs. In this organisation, that officer is the CC Chief Finance Officer.
- Manage his affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts.

2 The CC Chief Finance Officer's Responsibilities

The CC CFO is responsible for the production of the Statement of Accounts for the Chief Constable and for providing information to the PCC CFO as required for the production of group accounts. The CC CFO is responsible for the preparation of the Chief Constable's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Account, the CC CFO has:

- selected suitable accounting policies and then applied them consistently;
- made judgments and estimates that are reasonable and prudent;
- complied with the local authority code.

The CC CFO has also:

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The CC CFO should sign and date the Statement of Accounts, stating that it presents a true and fair view of the financial position of the organisation at the reporting date and its income and expenditure for the year ended 31 March 2013.

Independent Auditor's Report

4 blank pages left for audit opinion to be inserted after audit completed in September.

Independent Auditor's Report

4 blank pages left for audit opinion to be inserted after audit completed in September.

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Independent Auditor's Report

4 blank pages left for audit opinion to be inserted after audit completed in September.

Statement of Accounting Policies

1 General Principles

The Statement of Accounts summarises the financial transactions for the 2012-13 financial year and the financial position at the 31 March 2013. The Police and Crime Commissioner and Chief Constable are each required to prepare an annual Statement of Accounts (single entity) in accordance with the Accounts and Audit Regulations 2011 which stipulate that the statements be prepared in accordance with proper accounting practices. Those practices primarily comprise the CIPFA/LAASAC Code of Practice on Local Authority Accounting in the United Kingdom 2012-13 (the Code) and the Service Reporting Code of Practice 2012/13 (SERCOP), supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 act. The Police and Crime Commissioner is responsible for combining the single entity statements to form a set of consolidated group accounts.

2 Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories (stock) on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet.
- An accrual is made in respect of employee benefits payable during employment (see accounting policy 7 below for further details).

3 Cash and Cash Equivalents

In accordance with the terms of the Commissioner's funding agreement to the Chief Constable, the Chief Constable is funded on a cash basis, accordingly all cash and cash equivalent balances are recorded on the balance sheet of the Commissioner.

4 Exceptional Items

When exceptional items of income and expense are material, their nature and value is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of financial performance.

5 Prior period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or when the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the financial position or performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts and notes for the prior period as if the new policy had always been applied.

6 Charges to Revenue for Non-Current Assets

In accordance with the terms of the Commissioner's funding agreement to the Chief Constable, the Commissioner holds all non-current assets. Accordingly, all depreciation, revaluations and impairments are recorded in the Commissioner's single entity statement. However, the Commissioner makes a charge to the Chief Constable in the Comprehensive Income and Expenditure Statement for the use of non-current assets, which is equivalent to his share of depreciation.

7 Employee Benefits

7.1 Employee Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for functions in the year in which employees render service. An accrual is made for the cost of holiday entitlements, time off in lieu, flexi leave and rest days in lieu earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the salary rate applicable at the balance sheet date. The accrual is charged to Surplus or Deficit on the Provision of Services.

~~Generally this charge would then be reversed out through the Movement in Reserves Statement so that accounting entries would not impact on the requirement to raise council tax. At the time of preparation of the accounts the Chief Constable has not been granted Local Authority status and therefore lacks the statutory power to reverse the accounting entries associated with the accrual. The reversal of the accrual is however achieved by the Commissioner in the group accounts. As described in the Explanatory Foreword, a movement in reserves statement has been produced as if the Chief Constable had been granted Local Authority status.~~

7.2 Termination Benefits

Termination benefits are amounts payable as a result of a decision to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged (on an accruals basis) to the relevant service line in the Comprehensive Income and Expenditure Statement.

Where termination benefits involve enhancement of pensions, statutory provisions require the Police Fund balance be charged with the amount payable to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and any such amounts payable but unpaid at the year-end. ~~The movement in the Constabulary reserves in the single entity statements have been~~

~~presented on the basis that the Chief Constable had been granted Local Authority status.~~

8 Post Employment Benefits

There are two pension schemes for police officers and a single scheme for police staff. They are all defined benefits schemes. All accounting entries in relating to the Comprehensive Income and Expenditure Statement and the subsequent liability for police officers pensions are wholly recorded in the Chief Constable's accounts. For police staff all Comprehensive Income and Expenditure Statement entries and subsequent balance sheet liabilities in relation to pensions are apportioned between the Commissioner and the Chief Constable single entity statements on a headcount basis.

The liabilities of the pension fund is included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc and projections of earnings for current employees. Liabilities are discounted to their fair value at current prices using a discount rate (see assumptions set out in note 10b, page 39).

The change in the net pensions liability is analysed into seven components:

- Current service costs – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employee worked.
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- Interest costs – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Expected return on assets – the annual investment return on the fund assets (Local Government Pension Scheme (LGPS) only), based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Gains or losses on settlements and curtailments – the result of actions to relieve liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited/credited to the Pensions Reserve.
- Contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expenses.

In relation to retirement benefits, statutory provisions require the Police Fund to be charged with the amount payable to the pension funds in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pension Reserve thereby measures the beneficial impact to the Police Fund of being

required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

~~At the time of preparation of the accounts the Chief Constable has not been granted Local Authority status and therefore lacks the statutory power to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. All such accounting entries in relation to the Chief Constable have been recorded in a statement of movements in reserves, which is presented as if the Chief Constable has been granted Local Authority status.~~

Note 10 to the primary financial statements provides further information about the pension schemes.

8.2 Police Officers

The original Police Pension Scheme (PPS) is governed by the Police Pension Regulations 1987 (as amended) and related regulations that are made under the Police Pensions Act 1976. The new Police Pensions Scheme (NPPS) is also governed by the Police Pensions Act 1976 (as amended by the Police Pension Regulations 2006).

Both schemes are unfunded which means there are no investment assets built up to meet pensions liabilities from pensions or other retirement benefits for former employees.

The funding arrangements for police officers pensions changed on 1st April 2006. Before April 2006 pensions of former employees were required to be met on a 'pay as you go' basis with the cost charged to its revenue account. From April 2006 onwards there is an employer's contribution rate set by the Home Office (currently 24.2% of pensionable salary), which is charged to the Comprehensive Income and Expenditure Statement.

Also from 1st April 2006 legislation required the operation of a Pension Fund Account (shown on page 86). The amounts that must be paid into and out of the fund are specified by regulation. Officers' contributions and the employer's contributions are paid into the pension fund account from which pension payments are made. Any shortfall on the pension fund account is met by a contribution from the police fund. A Home Office Grant is received to cover this contribution. Conversely, a surplus on the Pension Fund Account would result in a contribution to the police fund, which would then be recouped by the Home Office. As the Commissioner is responsible for maintaining the police fund the receipt of Home Office pension grant and corresponding contribution to the Police Pension Fund Account are shown in the accounts of the Commissioner.

8.3 Police Staff

Police staff, subject to certain qualifying criteria, are eligible to join the LGPS, which is a funded defined benefit scheme. Pensions and other retirement benefits are paid from the fund. Employers and employees make regular contributions into the fund so that the liabilities are paid for evenly over the employment period.

Actuarial valuations of the fund are undertaken every three years to determine the contribution rates needed to meet its liabilities.

The assets of the LGPS pension fund are included in the Balance Sheet at their fair value:

- Quoted securities – current bid price
- Unquoted securities – professional estimate
- Unitised securities – current bid price

- Property – market value

The Accounts show the full implementation of IAS19 (Employee Benefits). IAS19 requires organisations to recognise retirement benefits in the Comprehensive Income and Expenditure Statement when they are earned, even though the benefits will not be payable until employees retire. However, as statutory procedures require the charge against Council Tax to be based on the amounts payable to the pension fund during the year, an appropriation is made within the pensions reserve equal to the net change in the pensions liability recognised in the Comprehensive Income and Expenditure Statement. ~~The neutralising entry is made through the Movement in Reserves Statement. As described previously the movement in the Constabulary's reserves in the Chief Constable's single entity statement is presented as if the Chief Constable has been granted Local Authority status in order to provide a reconciliation of the movement in reserves.~~ The Balance Sheet discloses the net liability in relation to retirement benefits. The figures are based on the Actuary's latest estimate.

There are restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and are accounted for using the same policies as applied to the LGPS.

9 Events after the Balance Sheet Date

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date the Statement of Accounts is authorised for issue which have an impact on the financial statements and are treated as follows. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the event and their estimated financial effect.

10 Financial Instruments - Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Where payable (i.e. a creditor) has a maturity of less than 12 months the fair value is taken to be the principal outstanding, or the billed / invoiced amount.

11 Financial Instruments - Financial Assets

Financial assets are initially measured at fair value and carried at their amortised cost. Where a receivable (i.e. a debtor) has a maturity of less than 12 months, the fair value is taken to be the principal outstanding or the billed / invoiced amount.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement. An example of such a charge would be an adjustment made to the debtors balance as a provision for bad debt.

12 Government Grants and Contributions

In accordance with the statutory responsibility of the Commissioner to maintain the Police Fund outlined in the Police and Social Responsibility Act 2011, all grants and contributions are attributable to the Commissioner and recorded in his accounts.

13 Intangible Assets

In accordance with the terms of the Commissioner's funding arrangement to the Chief Constable all intangible assets are held by the Commissioner.

14 Inventories

Inventories (stocks) are included in the balance sheet at historic cost. This is a departure from IAS2 which requires inventories to be valued at the lower of cost or net realisable value. However, for many stock items, particularly uniforms, net realisable value would be minimal and would not accurately reflect the value of holding these assets.

15 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and building elements are considered separately for classification.

Agreements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfillment of the arrangement is dependent on the use of specific assets.

The Chief Constable does not hold any finance leases (either as lessee or lessor) or operating leases (as lessor or lessee).

16 Treatment of Overheads

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2012/13 (SERCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the status as a democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on assets held for sale.

The two cost categories are defined in the Service Reporting Code of Practice (SERCOP) and accounted for as separate headings in the Comprehensive Income and Expenditure Statement as part of Cost of Services.

Under the Commissioner's funding arrangement to the Chief Constable premises costs (except where they are directly attributable to the Chief Constable) and those for police staff supporting both the Commissioner and Chief Constable are initially recorded in the accounts of the Commissioner and a recharge is made to the Chief Constable in the single entity comprehensive income and expenditure statements on an appropriate basis.

Under the Commissioner's funding arrangement to the Chief Constable transport and supplies and services costs (except where they are directly attributable to the Commissioner) are initially recorded in the accounts of the Chief Constable and a recharge is made to the Commissioner in the single entity comprehensive income and expenditure statements on an appropriate basis.

17 Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment. Under the terms of the Commissioner's funding arrangement to the Chief Constable all property, plant and equipment is held by the Commissioner. Accordingly, all accounting entries in relation to the acquisition, enhancement, revaluation, impairment, depreciation and sale of such assets are recorded in the single entity accounts of the Commissioner. As noted in policy 6 above, the Commissioner makes a charge to the Chief Constable for the use of such assets which is equivalent to the Chief Constable's share of depreciation.

18 Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the services that are provided under the PFI scheme are deemed under the PFI contract to be controlled, the asset is carried on the Balance Sheet as part of Property, Plant and Equipment.

There is currently one PFI scheme and this relates to the West Cumbria TPA HQ at Workington. Under the terms of the Commissioner's funding arrangement to the Chief Constable the Commissioner controls all property and accordingly the PFI building is recorded on the balance sheet of the Commissioner. A charge is made by the Commissioner to the Chief Constable in the comprehensive income and expenditure statement for the Constabulary's use of the building and the services provided.

19 Heritage Assets

There are a small number of items that fall under the definition of heritage assets. Due to their diverse nature and lack of historical cost information specialist valuations would be required in order to obtain a reliable estimated value to include in the accounts. The cost of obtaining such valuations would outweigh the benefits gained and therefore no values are included in the balance sheet.

20 Provisions, Contingent Liabilities and Contingent Assets

20.1 Provisions

Provisions are made when an event has taken place that gives a legal or constructive obligation that probably requires settlement by transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, involvement in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate function line in the Comprehensive Income and Expenditure Statement in the year that awareness of the obligation arises, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account the relevant risks and uncertainties. Details of provisions made during the year are shown in the notes to the +accounts (note 9, page 34-35).

When payments are eventually made, they are charged to the provision carried on the Balance Sheet. Estimated settlements are reviewed at the end of each financial year where it becomes less than probable that a transfer of economic benefits will subsequently be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant function.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the obligation is settled.

20.2 Contingent Liabilities

A contingent liability arises where an event has taken place that gives a possible obligation which will only be confirmed by the occurrence or otherwise of uncertain future events which cannot wholly be controlled. Contingent liabilities also arise in circumstances where a provision would otherwise be made but it is either not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised on the Balance Sheet but disclosed in a note to the accounts.

20.3 Contingent Assets

A contingent asset arises where an event has taken place that gives rise to a possible asset which will only be confirmed by the occurrence or otherwise of uncertain future events which cannot wholly be controlled.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

21 Reserves

Under the terms of the funding arrangement between the Commissioner and the Chief Constable, the majority of usable reserves i.e. those reserves that may be used to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use, are controlled by the Commissioner and are recorded in the balance sheet of the Commissioner. However, the Chief Constable does hold certain usable reserves in relation to pensions and accumulated employee absences, which arise from Constabulary activities and not covered by the funding arrangement, which are shown on the Chief Constable's balance sheet.

22 Material Estimation Techniques

IAS 1 Presentation of Financial Statements requires disclosure of any estimation techniques applied, such that if a different methodology had been used a material variance in the amounts disclosed would have been arrived at. The only material estimation techniques used are as follows: -

22.1 Pension Disclosure Note:-

Where the projected unit method of valuation has been applied and which is consistent with the required methodology in IAS 19. This is a valuation method in which the scheme liabilities make an allowance for projected earnings. An accrued benefits valuation method is one in which the scheme liabilities at the valuation date relate to:

(a) the benefits pensioners and deferred pensioners (i.e. individuals who have ceased as active members but are entitled to benefits payable at a later date) and their

dependents, allowing where appropriate for future increases, and

(b) the accrued benefits for members in service on the valuation date. The accrued benefits are the benefits for service up to a given point in time, whether vested or not.

For 2012-13 a discount rate based on the current rate of return on a high quality corporate bond of equivalent currency and term to scheme liabilities is to be used. The actuaries for the Police and LGPS pension funds have advised that a rate of between 4.3% and 4.4% is appropriate.

23 Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Chief Constable, analysed into 'Usable Reserves' (i.e. those that can be applied to fund expenditure). The Surplus (or Deficit) on the Provision of Services line shows the true economic cost of providing the Chief Constable's services, more details of which are shown in the Comprehensive Income and Expenditure Statement (page 26).

	Usable Reserves				
	Constabulary Fund £000s	Police Pensions Reserve £000s	LGPS Pensions Reserve £000s	Accumulated Absences Account £000s	Total Reserves £000s
Balance at 1 April 2012	**0**	**(854,730)**	**(21,190)**	**(3,711)**	**(879,631)**
Movement in Reserves during 2012-13					
Surplus or (Deficit) on the provision of services	(37,701)	0	0	0	**(37,701)**
Other Comprehensive Income and Expenditure	(125,605)	0	0	0	(125,605)
Total Comprehensive Income and Expenditure	**(163,306)**	**0**	**0**	**0**	**(163,306)**
Transfer to Other Usable Reserves	163,306	(155,760)	(7,612)	66	**0**
Increase/(Decrease) in 2012-13	**0**	**(155,760)**	**(7,612)**	**66**	**(163,306)**
Balance at 31 March 2013	**0**	**(1,010,490)**	**(28,802)**	**(3,645)**	**(1,042,937)**

The comparative figures for 2011-12 are shown in the table below:

	Usable Reserves				
	Constabulary Fund £000s	Police Pensions Reserve £000s	LGPS Pensions Reserve £000s	Accumulated Absences Account £000s	Total Reserves £000s
Balance at 1 April 2011	**0**	**(800,940)**	**(19,561)**	**(4,008)**	**(824,509)**
Movement in Reserves during 2011-12					
Surplus or (Deficit) on the provision of services	(42,858)	0	0	0	**(42,858)**
Other Comprehensive Income and Expenditure	(12,264)	0	0	0	(12,264)
Total Comprehensive Income and Expenditure	**(55,122)**	**0**	**0**	**0**	**(55,122)**
Transfer to Other Usable Reserves	55,122	(53,790)	(1,629)	297	**0**
Increase/(Decrease) in 2011-12	**0**	**(53,790)**	**(1,629)**	**297**	**(55,122)**
Balance at 31 March 2012	**0**	**(854,730)**	**(21,190)**	**(3,711)**	**(879,631)**

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices.

2011-12 Gross Expendture £000s	2011-12 Gross Income £000s	2011-12 Net Expendture £000s				Notes	2012-13 Gross Expendture £000s	2012-13 Gross Income £000s	2012-13 Net Expendture £000s
51,466	(49)	51,417			Local Policing		47,935	(34)	47,901
7,537	(7)	7,530			Dealing with the public		7,210	0	7,210
9,166	(9)	9,157			Criminal justice arrangements		9,032	(5)	9,027
7,689	(7)	7,682			Road policing		6,870	(9)	6,861
4,832	(5)	4,827			Specialist operations		4,062	(3)	4,059
7,382	(7)	7,375			Intelligence		7,122	(3)	7,119
13,394	(13)	13,381			Investigations		13,123	(3)	13,120
3,124	(3)	3,121			Investigative support		2,805	0	2,805
1,370	(1)	1,369			National policing		1,987	(19)	1,968
93	0	93			Corporate and democratic core		274	0	274
415	0	415			Non distributed costs	10	195	0	195
1,768	0	1,768			Exceptional Item - Termination Costs	19&24	1,134	0	1,134
0	(111,549)	(111,549)			Funding Provided by PCC to CC		0	(106,618)	(106,618)
108,236	**(111,650)**	**(3,414)**		**Cost Of Services**			**101,749**	**(106,694)**	**(4,945)**
				Financing and Investment Income and Expenditure					
50,017	0	50,017			Pensions interest costs	10	46,258	0	46,258
0	(3,745)	(3,745)			Expected return on pension assets	10	0	(3,612)	(3,612)
50,017	**(3,745)**	**46,272**					**46,258**	**(3,612)**	**42,646**
158,253	**(115,395)**	**42,858**		**(Surplus) or Deficit on Provision of Services**			**148,007**	**(110,306)**	**37,701**
		12,264		**Actuarial (gains) / losses on pension assets / liabilities**					125,606
		12,264		**Other Comprehensive Income and Expenditure**					**125,606**
		55,122		**Total Comprehensive Income and Expenditure**					**163,307**

Further explanations of the functions included within Cost of Services are provided at note 13a

Income and Expenditure are also shown in the traditional subjective analysis format in note 13b.

Balance Sheet

The Balance Sheet shows the value as at the balance sheet date of the assets and liabilities recognised by the Chief Constable. The net assets (assets less liabilities) are matched by the reserves held by the Chief Constable. The reserves of the Chief Constable are not able to be used to provide services.

31 March 2012 £000s			Notes	31 March 2013 £000s
291		Inventories	6	302
2,673		Short Term Debtors (amounts owed to CC by PCC) - Share of External Debtors	7	2,658
131		Short Term Debtors (amounts owed to CC by Employees re Accumulated Absences)	7	102
4,585		Debtors (Funding balance owed to CC by PCC)	7	5,428
7,680		**Current Assets**		**8,490**
(3,619)		Short Term Creditors (amounts owed by CC to PCC) - share of external creditors	8	(4,173)
(3,842)		Short Term Creditors (amounts owed by CC to Employees re Accumulated Absences)	8	(3,747)
(2,964)		Creditors (funding balance owed by CC to PCC)	8	(2,960)
(10,425)		**Current Liabilities**		**(10,880)**
(966)		Provisions	9	(1,255)
		Other Long Term Liabilities		
(854,730)		Pensions liability - Police	10	(1,010,490)
(21,190)		Pensions liability - LGPS	10	(28,802)
(876,886)		**Long Term Liabilities**		**(1,040,547)**
(879,631)		**Net Assets**		**(1,042,937)**
		Usable Reserves	11	
(854,730)		Chief Constable's Police Pensions Reserve	11a	(1,010,490)
(21,190)		Chief Constable's LGPS Pensions Reserve	11a	(28,802)
(3,711)		Chief Constable's Accumulated Absences Account	11b	(3,645)
(879,631)		**Total Reserves**		**(1,042,937)**

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Chief Constable during the reporting period. Under the funding arrangement between the Police and Crime Commissioner and the Chief Constable the Chief Constable does not engage in investment and financing activities therefore all cash flows are classified as operating activities.

2011-12 £000s				2012-13 £000s
42,858		Net (Surplus) or Deficit on the provision of services		37,701
(42,858)		Adjustment to net surplus or deficit on the provision of services for non-cash movements		(37,701)
0		Net cash flows from Operating Activities		0

Notes to the Accounts

1 Critical Judgements in Applying Accounting Policies

In applying the accounting policies as set out in pages 16 to 24 of this document, the Chief Constable has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

2 Events after the Balance Sheet Date

A post balance sheet event is an event, subsequent to the date of the financial statements, and for which International Financial Reporting Standards and the code require adjustment or disclosure. Consideration has been given to the implications in respect of the matters set out below with regards to the statement of accounts and the conclusions reached were that the accounts should be amended to reflect a non-adjusting post balance sheet event.:

On 30 August 2013 the contract of Mr. Hyde as temporary Chief Constable came to an end at which point he reverted to his substantive role of Deputy Chief Constable and came under the jurisdiction of Temporary Chief Constable Mr. Lawson. Following consideration of the findings of an independent investigation conducted by the Chief Constable of South Wales Police into the issues which gave rise to the suspension of Mr. Hyde, Temporary Chief Constable Mr. Lawson determined that Mr. Hyde should return to work in the role of Deputy Chief Constable under a management action plan to ensure that lessons were learned from the findings of the investigation.

The Police and Crime Commissioner and Chief Constable have put in place a joint action plan to address recommendations of an organisational nature arising from the investigation. The annual governance statement has been updated to reflect the action plan. Progress against the action plan will be monitored by the Joint Audit and Standards Committee. The recommendations within the report and a summary of the findings have been made public to aid transparency.

A contingent liability has been included in the accounts to reflect a recent tribunal decision in relation to the payment of injury pensions, more detail can be found in note 21 on page 50.

The Statement of Accounts was authorised for issue by the Chief Constable's Chief Finance Officer on 23 September 2013. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2013, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

3 Assumptions made about the future and other Sources of Estimation Uncertainty

The statement of Accounts contains estimated figures that are based on assumptions made by the Chief Constable about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Chief Constable's balance sheet as at 31 March 2013 for which there is significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Provisions	The Chief Constable has made a provision of £593k for the settlement of insurance liabilities for a number of eventualities which are not covered by external insurers. The provision is based on an actuarial estimate but it is not yet certain that all valid claims have yet been received by the Chief Constable.	An increase over the forthcoming year of 10% in either the number of claims received or the estimated average settlement would each have the effect of adding £59k to the provision needed.
	The Chief Constable has made a provision of £532k in respect of terminations costs (redundancy and additional pensions) in respect of redundancies that the Constabulary was demonstrably committed to as at 31 March 2013 which will take place in 2013-14.	Throughout the period of reorganisation, termination costs have been met from the Management of Change Reserve (held on the balance sheet of the Commissioner) established for this purpose, any increase in the costs of termination (over and above that in the provision) will be met from the reserve. Any increase or decrease in the actual amount paid compared to the established provision will fall to the revenue budget for 2013-14.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Two firms of consulting actuaries are engaged to provide the Chief Constable with expert advice about the assumptions to be applied for both the Police Pension Scheme (Government Actuaries Department) and the Local Government Pension Scheme (Mercer Ltd).	The effects of the net pension liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption for LGPS would result in a decrease in the pension liability of £2.3m, whilst a 0.5% reduction in the rate of return in excess of earnings for Police Pensions would result in an increase in the pension liability of £25m. However, the assumptions interact in complex ways. During 2012-13, the Chief Constable's actuaries advised that the net pension liability had reduced by £18m as a result of estimates being corrected as a result of experience and increased by £144m attributable to updating of the assumptions.

4 Heritage Assets

The code requires Heritage Assets, which are maintained principally for their contribution to knowledge or culture, to be separately disclosed.

The Chief Constable holds a small number of historical ephemera relating to policing in Cumbria which would fall under the definition of heritage assets including: a ceremonial chair, four antique firearms, several trophies, a commemorative plaque, two ceremonial swords and four portraits.

In the opinion of the Chief Constable the assets do not have a material intrinsic value in the context of the Chief Constable's accounts. Due to their historical origin no cost of valuation information is available and because of their diverse nature specialist valuations would be required to obtain a reliable estimate of their value. The Chief Constable is of the opinion that the costs of obtaining the valuations for these items would be disproportionate in terms of the benefits gained and therefore no values are included in the Chief Constable's balance sheet.

5 Financial Instruments

5.a Categories of Financial Instrument

The following categories of financial instrument are carried in the balance sheet.

	Long Term		Current	
	31 March 2012 £'000	31 March 2013 £'000	31 March 2012 £'000	31 March 2013 £'000
Financial Assets				
Debtors				
Financial assets carried at contract amounts	0	0	131	136
Total Financial Assets	**0**	**0**	**131**	**136**
Financial Liabilities				
Creditors				
Financial liabilities carried at contract amounts	0	0	(5,617)	(6,167)
Total Financial Liabilities	**0**	**0**	**(5,617)**	**(6,167)**

5.b Fair value of Assets and Liabilities Carried at Amortised Cost

Financial liabilities and assets represented by loans and receivables and long term debtors and creditors are carried in the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Estimated interest rates at 31 March 2013 of 5% for loans from the PWLB.
- No early repayment or impairment is recognised
- Where an instrument will mature in the next 12 months, carrying amount is assumed to be approximate to fair value
- The fair value of trade and other receivables is taken to be the invoiced amount.

The fair values calculated are as follows:

	31 March 2012		31 March 2013	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Financial Liabilities				
Creditors	131	131	136	136
	131	**131**	**136**	**136**
Financial Assets				
Debtors	(5,617)	(5,617)	(6,167)	(6,167)
	(5,617)	**(5,617)**	**(6,167)**	**(6,167)**

5.c Disclosure of the Nature and Extent of Risks Arising from Financial Instruments

The Chief Constable's activities expose him to a variety of financial risks:

- Credit Risk – the possibility that other parties might fail to pay amounts due to the Chief Constable.
- Liquidity Risk – the possibility that the Chief Constable might not have funds available to meet its commitments to make payments.

Credit Risk

As the Chief Constable is funded by the Commissioner and the Chief Constable's credit risk arises indirectly through the Commissioner's deposits with banks and financial institutions, as well as credit exposures to the Commissioner's customers.

This risk is minimised through the application of policies set out in the annual Treasury Management Strategy Statement (TMSS), which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by Fitch and Moody's ratings services. The annual TMSS (approved by the Commissioner in February 2012), also imposes a maximum sum to be invested with a financial institution located within each category.

Liquidity Risk

Under the terms of the funding arrangement between the Commissioner and the Chief Constable the Commissioner provides funding to the Chief Constable on a cash basis. As the Commissioner has ready access to borrowings from the PWLB and had at 31 March 2013 no actual external debt as it has financed a number of recent projects through internal borrowing, there is no significant risk that it will be unable to raise finance to meet its commitments to the Chief Constable within the terms of the funding arrangement.

Notes to the Accounts

6 Inventories

A summary of the items held at 31 March 2013 is set out in the table below:

	As at 31 March 2012 £'000	2013 £'000
Balance outstanding at start of year	297	291
Adjustments to opening balance	0	0
Purchases	610	473
Issues (recognised as an expense)	(616)	(461)
Written off balances	0	(1)
Balance outstanding at end of year	**291**	**302**
Analysis by Inventory Type		
Uniforms	160	178
Vehicle Equipment	49	53
Forensic and Photographic Materials	22	23
Admin Equipment and Materials	37	28
Operational Equipment	23	20
Total	**291**	**302**

7 Debtors

A breakdown of the amounts owing to the Chief Constable as at 31 March 2013 is set out in the table below:

	As at 31 March 2012 Re-stated £'000	2013 £'000
Balance Owed from PCC re CC Share of External Debtors		
- Lancashire Police re Pre 74 Police Pensions	0	34
- Police Pensioners Prepayment	1,807	1,906
- Prepayments/Payments In Advance	866	718
	2,673	**2,658**
Balance Owed From Employees (re compensating absences)	131	102
Balance Owed from PCC re balance of Funding	4,585	5,428
Total Debtors	**7,389**	**8,188**

8 Short-term Creditors

An analysis of the amounts owed by the Chief Constable as at 31 March 2013 is set out in the table below:

	As at 31 March 2012 Re-stated £'000	2013 £'000
Balance Owed to PCC re CC Share of External Creditors		
- Central Government Bodies	(1,900)	(1,893)
- Other Police / Local Authorities	(99)	(620)
- NHS Bodies	(1)	(3)
Other Entities and Individuals		
- Goods and Services	(1,619)	(1,657)
	(3,619)	**(4,173)**
Balance Owed to Employees (re compensating absences)	(3,842)	(3,747)
Balance Owed to PCC re balance of Funding	(2,964)	(2,960)
Total Creditors	**(10,425)**	**(10,880)**

9 Provisions

The Chief Constable is able to maintain provisions to meet expected future liabilities. The Code of Practice on Local Authority Accounting advises that the value of any provisions be charged to the appropriate part of the Comprehensive Income and Expenditure Statement in anticipation of the liability having to be met in the future. The classification of provisions is consistent with the Code of Practice.

A brief description of the purpose of the individual provisions as at 31 March 2013 is provided below:

Insurance liabilities – this provision has been established to meet a number of eventualities which are not covered by external insurers. In particular, liability risks up to £25k (per event) are retained by the Chief Constable and met internally.

Termination Payments - this employee related provision relates to a liability that exists in respect of termination benefits as a result of a decision made during 2012-13 for which the actual payments will fall into 2013-14.

Legal Claims – this provision has been established to cover the potential costs relating to a number of legal claims that are currently ongoing.

The table below shows the movements during the year on each of the provisions and the position as at 31 March 2013.

Provisions	Balance as at 01-04-12 £'000	Provisions Made 2012-13 £'000	Amounts Used in 2012-13 £'000	Balance as at 31-03-13 £'000
Insurance Liabilities	(593)	(205)	205	**(593)**
Termination Payments	(232)	(532)	232	**(532)**
Pay Awards	(141)	0	141	**0**
Legal Claims	0	(130)	0	**(130)**
Total Provisions	**(966)**	**(867)**	**578**	**(1,255)**

The comparative information for year ended 31 March 2012 is as follows:

Provisions	Balance as at 01-04-11 £'000	Provisions Made 2011-12 £'000	Amounts Used in 2011-12 £'000	Balance as at 31-03-12 £'000
Insurance Liabilities	(363)	(344)	114	**(593)**
Termination Payments	0	(232)	0	**(232)**
Pay Awards	0	(141)	0	**(141)**
Total Provisions	**(363)**	**(717)**	**114**	**(966)**

10 Pensions

10.a Pension Schemes

As part of the terms and conditions of employment of its officers and other employees, the Chief Constable offers retirement benefits. Although these benefits will not actually be payable until employees retire, under IAS 19 the Chief Constable must recognise its future commitment to make payments, which need to be disclosed at the time that employees earn their future entitlement. In addition, the financial statements should contain adequate disclosure of the costs of providing benefits and related gains/losses.

The Chief Constable participates in two pension schemes:

- The Local Government Pension Scheme (LGPS) for Police Staff employees, administered by Cumbria County Council (outsourced to Lancashire County Council) – this is a funded defined benefit scheme, meaning that the Chief Constable and employees pay contributions into a fund. Contributions are calculated at a level intended to balance the pensions liabilities with investment assets over the long term. In 2012-13 the Chief Constable made a contribution of 11.1% of pensionable pay supplemented by a contribution to past service costs of £504k. The contribution rate was last reviewed in March 2010 with revised rates applicable from April 2011.

- The Police Pension Scheme is an unfunded scheme (i.e. there are no investment assets built up to meet pension liabilities and cash has to be generated to meet actual pensions payments as

they fall due). The Chief Constable and employees pay contributions into a separate pensions fund account administered by the Chief Constable from which on-going pensions liabilities are met. At the year-end any surplus or deficit on the pensions fund account is paid to or met by the Commissioner who then repay or are reimbursed by the Home Office. (2012-13 contribution rates for employers were 24.2% of pensionable pay and was last reviewed in March 2007).

The cost of retirement benefits is recognised in the Cost of Services within the Comprehensive Income and Expenditure Statement when employees earn them, rather than when the benefits are eventually paid as pensions. ~~However, the charge required to be made on a statutory basis rather than proper accounting practices is based on the cash payable in the year, so the real cost of retirement benefits is adjusted through the Movement in Reserves Statement. (see Accounting Policy note 8).~~

The following transactions have been made in the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement during the year:

	LGPS Funded Benefits		LGPS Unfunded Benefits		Police Scheme Old Scheme		Police Scheme 2006 Scheme	
	2011-12 £'000	2012-13 £'000	2011-12 £'000	2012-13 £'000	2011-12 £'000	2012-13 £'000	2011-12 £'000	2012-13 £'000
Comprehensive Income and Expenditure Statement								
Cost of Services								
Current service cost	3,064	2,973	0	0	16,030	15,460	2,000	2,330
Past service costs (general)	0	0	0	0	20	20	0	0
Settlements and Curtailments	395	175	0	0	0	0	0	0
Financing and Investment Income and Expenditure								
Interest cost	4,403	4,449	54	49	44,900	40,990	660	770
Expected return on scheme assets	(3,745)	(3,612)	0	0	0	0	0	0
Total Post Employement Benefit Charged to the Surplus or Deficit on the Provision of Services	**4,117**	**3,985**	**54**	**49**	**60,950**	**56,470**	**2,660**	**3,100**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement								
Actuarial (gains) and losses	**674**	**6,455**	**0**	**0**	**10,950**	**114,770**	**640**	**4,380**
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**4,791**	**10,440**	**54**	**49**	**71,900**	**171,240**	**3,300**	**7,480**

10.b Assets and Liabilities in relation to Retirement Benefits

Under IAS 19, the financial statements should reflect at fair value the assets and liabilities arising from an employer's obligation to pay retirement benefits and the funding provided.

The underlying assets and liabilities for retirement benefits attributable to the Chief Constable at 31 March 2013 are as follows:-

	LGPS Funded Benefits		LGPS Unfunded Benefits		Police Scheme Old Scheme		Police Scheme 2006 Scheme	
	2011-12 £'000	2012-13 £'000	2011-12 £'000	2012-13 £'000	2011-12 £'000	2012-13 £'000	2011-12 £'000	2012-13 £'000
Estimated Liabilities in Scheme	(86,188)	(104,763)	(1,008)	(1,061)	(840,510)	(988,130)	(14,220)	(22,360)
Estimated Assets in scheme	66,006	77,022	0	0	0	0	0	0
Pension Liability	**(20,182)**	**(27,741)**	**(1,008)**	**(1,061)**	**(840,510)**	**(988,130)**	**(14,220)**	**(22,360)**

The liabilities in the above table show the underlying commitments that the Chief Constable has, in the long run, to pay retirement benefits. The total liability of £1.039m has a substantial impact on the net worth of the Chief Constable as recorded in the balance sheet, resulting in a negative overall balance of £1.043m.

However, statutory arrangements for funding the deficit mean that the financial position of the Constabulary remains healthy, since:

- the deficit on the local government scheme will be made good by increased contributions and changes to benefits over the remaining working life of employees, as assessed by the scheme actuary
- finance is only required to be raised to cover police pensions when the pensions are actually paid.

Reconciliation of present value of scheme liabilities:

	LGPS Funded Benefits		LGPS Unfunded Benefits		Police Scheme Old Scheme		Police Scheme 2006 Scheme	
	2011-12 £'000	2012-13 £'000	2011-12 £'000	2012-13 £'000	2011-12 £'000	2012-13 £'000	2011-12 £'000	2012-13 £'000
Balance at Start of Year	**(78,722)**	**(86,188)**	**(1,013)**	**(1,008)**	**(790,550)**	**(840,510)**	**(10,390)**	**(14,220)**
Current Service Cost	(3,064)	(2,973)	0	0	(16,030)	(15,460)	(2,000)	(2,330)
Interest Cost	(4,403)	(4,449)	(54)	(49)	(44,900)	(40,990)	(660)	(770)
Contributions by Scheme Participants	(1,236)	(1,122)	0	0	(4,080)	(4,330)	(510)	(610)
Actuarial Gains and (Losses)	(1)	(11,851)	0	(67)	(10,950)	(114,770)	(640)	(4,380)
Benefits / Transfers Paid	1,633	1,995	59	63	26,020	27,950	(20)	(50)
Past Service (normal)	0	0	0	0	(20)	(20)	0	0
Curtailments and Settlements	(395)	(175)	0	0	0	0	0	0
Balance at End of Year	**(86,188)**	**(104,763)**	**(1,008)**	**(1,061)**	**(840,510)**	**(988,130)**	**(14,220)**	**(22,360)**

The liabilities under both the LGPS and Police pension schemes have increased during 2012-13. The principal reason for this increase is in relation to actuarial gains and losses.

Reconciliation of fair value of the scheme assets:

	LGPS Funded Benefits		LGPS Unfunded Benefits	
	2011-12 £'000	2012-13 £'000	2011-12 £'000	2012-13 £'000
Balance at Start of Year	**60,174**	**66,006**	**0**	**0**
Expected Rate of Return	3,745	3,612	0	0
Actuarial Gains and (Losses)	(673)	5,463	0	0
Employer Contributions	3,157	2,814	59	63
Contributions by Scheme Participants	1,236	1,122	0	0
Benefits Paid	(1,633)	(1,995)	(59)	(63)
Balance at End of Year	**66,006**	**77,022**	**0**	**0**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long term real rates of return experienced in the respective markets.

The actual return on the Chief Constable's share of scheme assets in the year was a gain of £9,075k which compares with a gain in 2011-12 of £3,072k.

Scheme History

	Restated 2008-09 £'000	Restated 2009-10 £'000	2010-11 £'000	2011-12 £'000	2012-13 £'000
Present Value of Scheme Liabilities					
Local Government Pension Scheme	(52,598)	0	0	0	0
- Funded	0	(84,007)	(78,722)	(86,188)	(104,763)
- Unfunded		(1,245)	(1,013)	(1,008)	(1,061)
Police - Old Scheme	(587,270)	(875,780)	(790,550)	(840,510)	(988,130)
Police - 2006 Scheme	(2,090)	(8,480)	(10,390)	(14,220)	(22,360)
Fair Value of Assets in the LGPS	37,575	52,691	60,174	66,006	77,022
Surplus / (Deficit) in the Scheme					
Local Government Pension Scheme	(15,023)	(32,561)	(19,561)	(21,190)	(28,802)
Police - Old Scheme	(587,270)	(875,780)	(790,550)	(840,510)	(988,130)
Police - 2006 Scheme	(2,090)	(8,480)	(10,390)	(14,220)	(22,360)
Total	**(604,383)**	**(916,821)**	**(820,501)**	**(875,920)**	**(1,039,292)**

The total contributions expected to be made to the Local Government Pension Scheme by the Constabulary in the year to 31 March 2014 are £2,723k. Expected contributions for the Police Pension Scheme in the year to 31 March 2014 are £10,094k.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, which provides an estimate of the pensions that will be payable in future years using assumptions about mortality rates, salary levels, etc. William M Mercer, an independent firm of actuaries, has carried out the assessment on the Local Government Pension Scheme. These accounts are based on the actuarial valuation undertaken on 31 March 2010. The Police Scheme estimates have been compiled using a valuation model devised by the Government Actuaries Department.

The principal assumptions used by the actuary have been:-

	LGPS		Police Scheme	
	2011-12	2012-13	2011-12	2012-13
Long-term Expected Rate of return on Assets in the Scheme:				
- Equity Investments	7.00%	7.00%	N/A	N/A
- Government Bonds	3.10%	2.80%	N/A	N/A
- Other Bonds	4.10%	3.90%	N/A	N/A
- Property	6.00%	5.70%	N/A	N/A
- Cash / Liquidity	0.50%	0.50%	N/A	N/A
- Other	7.00%	7.00%	N/A	N/A
Mortality Assumptions:				
Longevity at 65 for current pensioners:				
- Men	21.8	22.2	23.3	23.4
- Women	24.5	24.9	25.7	25.8
Longevity at 65 for future pensioners:				
- Men	23.2	24.1	25.6	25.7
- Women	26.0	26.9	27.8	27.9
Rate of Inflation (CPI)	2.60%	2.40%	2.50%	2.50%
Rate of increase in salaries	4.35%	4.15%	4.70%	4.75%
Rate of increase in pensions	2.60%	2.40%	2.50%	2.50%
Rate for discounting scheme liabilities	5.10%	4.40%	4.90%	4.30%
Take-up of option to convert annual pension into retirement lump sum	50%	50%	N/A	N/A

The Police Pension Scheme has no assets to cover its liabilities. The Chief Constable's share of assets in the Cumbria County Council Pension Fund (LGPS) consists of the following categories, by proportion of the total assets held:

	2011-12		2012-13	
LGPS Asset Breakdown	£'000	%	£'000	%
Equities	34,058	51.60%	42,670	55.40%
Government Bonds	10,561	16.00%	12,247	15.90%
Other Bonds	10,561	16.00%	12,169	15.80%
Property	4,224	6.40%	4,313	5.60%
Cash / Liquidity	1,057	1.60%	462	0.60%
Other	5,545	8.40%	5,161	6.70%
	66,006	**100.00%**	**77,022**	**100.00%**

The actuarial gains and losses identified as movements on the Pensions Reserve in 2012-13 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities as 31 March 2013.

	2008-09		2009-10		2010-11		2011-12		2012-13	
	£'000	%	£'000	%	£'000	%	£'000	%	£'000	%
LGPS										
Difference between actual and expected returns on assets	(10,838)	-29%	8,693	17%	888	2%	(673)	1%	5,463	7%
Difference between actual and expected returns on liabilities	17,526	33%	(25,600)	-33%	9,151	-12%	(1)	0%	(11,918)	11%
Change in actuarial assumptions	0	0%	0	0%	0	0%	0	0%	0	0%
Net Gain/(Loss)	**6,688**		**(16,907)**		**10,039**		**(674)**		**(6,455)**	
Police (Old Scheme)										
Difference between actual and expected returns on liabilities	1,683	0%	14,270	2%	27,320	3%	12,190	86%	25,410	114%
Change in actuarial assumptions	71,330	12%	(271,910)	-31%	6,000	-1%	(23,140)	-163%	(140,180)	-627%
Net Gain/(Loss)	**73,013**		**(257,640)**		**33,320**		**(10,950)**		**(114,770)**	
Police (New 2006 Scheme)										
Difference between actual and expected returns on liabilities	(20)	-1%	(530)	-6%	(20)	0%	110	1%	(380)	-2%
Change in actuarial assumptions	480	22%	(4,140)	-49%	360	-3%	(750)	-3%	(4,000)	-18%
Net Gain/(Loss)	**460**		**(4,670)**		**340**		**(640)**		**(4,380)**	
Total Gain/(Loss)	**80,386**		**(279,785)**		**44,036**		**(12,287)**		**(125,605)**	

11 Usable Reserves

Certain reserves are kept to manage the accounting processes for retirement and employee benefits and do not represent usable resources for the Chief Constable. The balance of usable reserves as shown on the Balance Sheet (page 27) is shown in the table below.

	Note	As at 31 March 2012 £'000	2013 £'000
Chief Constable's Police Pension Reverve	11a	(854,730)	(1,010,490)
Chief Constable's LGPS Pension Reserve	11a	(21,190)	(28,802)
Chief Constable's Accumulated Absences Account	11b	(3,711)	(3,645)
		(879,631)	**(1,042,937)**

11.a Pensions Reserve

The Pensions Reserves (LGPS and Police) absorb the timing differences arising from the different arrangements for accounting for post employment benefits and for funding in accordance with statutory provisions. The Chief Constable accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Chief Constable makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pension Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Chief Constable has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	LGPS Pensions		Police Pensions	
	2011-12 £'000	2012-13 £'000	2011-12 £'000	2012-13 £'000
Balance at Start of Year	**(19,561)**	**(21,190)**	**(800,940)**	**(854,730)**
Actuarial gains or (losses) on pension assets and liabilities	(674)	(6,455)	(11,590)	(119,150)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(4,171)	(4,034)	(63,610)	(59,570)
Employer's pension contributions and direct payments to pensioners payable in the year.	3,216	2,877	21,410	22,960
Balance at End of Year	**(21,190)**	**(28,802)**	**(854,730)**	**(1,010,490)**

11.b Accumulated Absences Account

The short-term accumulated absences account absorbs the differences that would otherwise arise on the Police Fund balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave, flexi leave, time off in lieu and rest day entitlements carried forward at 31 March. Statutory arrangements require that the impact on the Police Fund Balance is neutralised by transfers to or from the Account.

	2011-12 £'000	2012-13 £'000
Balance at Start of Year	**(4,008)**	**(3,711)**
Settlement or cancellation of accrual made at the end of the preceeding year	4,008	3,711
Amounts accrued at the end of the current year	(3,711)	(3,645)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	**297**	**66**
Balance at End of Year	**(3,711)**	**(3,645)**

12 The Cash Flow Statement

This statement summarises the inflows and outflows of cash and cash equivalents arising from transactions with third parties for revenue and capital purposes. Cash is defined for the purpose of this statement, as cash in hand and deposits repayable on demand less overdrafts repayable on demand. The cashflow statement is shown on page 28.

Notes to the Accounts

13 Comprehensive Income and Expenditure Statement

This account summarises the resources that have been generated and consumed in providing policing and crime reduction services during the year. It includes all day to day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year.

13.a Comprehensive Income and Expenditure Statement Categories

The Code requires the Chief Constable's financial statements to show the Comprehensive Income and Expenditure Statement in a form as recommended by SERCOP. This is designed both to provide more meaningful information about how resources are utilised and also to allow more meaningful comparison amongst policing organisations. SERCOP has reaffirmed the concept of Total Cost, which requires consistent appropriation of support costs and overheads to defined areas of front line policing activity. The Police Objective Analysis (POA) was introduced by the Home Office and was used as a basis for reporting the service expenditure analysis for the first time in the 2009-10 accounts. The defined areas, together with some explanations as to their content, are set out below:-

(a) Police Services, this includes the following activities:

- Local Policing – neighbourhood policing, incident management, local investigation, community liaison, local command team and support overheads.
- Dealing with the Public – local call centre/front desk, central communications unit.
- Criminal Justice Arrangements – custody/prisoner handling, criminal justice arrangements, Police National Computer, civil disclosure/criminal records bureau, coroner assistance, fixed penalty scheme/central ticket office.
- Roads Policing – traffic units, vehicle recovery, road safety partnership
- Specialist Operations – central operations command team and support overheads, underwater search/marine support, dogs sections, level 1 advanced public order, firearms unit, civil contingencies.
- Intelligence – central intelligence command team and support overheads, intelligence/threat assessments, covert policing.
- Specialist Investigation – crime support command team and support overheads, major investigations unit, economic crime, serious and organised crime unit, public protection.
- Investigative Support – scenes of crime officers, external forensic costs, fingerprint/DNA bureau, photographic image recovery, other forensic services.
- National Policing – secondments (out of force), counter terrorism/special branch, ACPO projects/initiatives.

(b) Corporate and Democratic Core Costs:

- Democratic Representation and Management – all member expenses; officer time spent on appropriate advice activities; subscriptions to local authority associations etc.
- Corporate Management – costs of head of paid service; maintenance of statutory registers; statutory returns and statistics; external audit and inspections; Treasury Management; bank charges.

(c) Non Distributed Costs:

- Pension costs – past service costs, curtailments and settlements.
- Depreciation costs and impairment losses in relation to assets under construction and surplus assets held for disposal.

Notes to the Accounts

13.b Subjective Analysis of Income and Expenditure

The revenue income and expenditure account is shown below on a subjective basis for information.

2011-12 Gross Expenditure £'000	2011-12 Gross Income £'000	2011-12 Net Expenditure £'000	Area of Expenditure	Notes	2012-13 Gross Expenditure £'000	2012-13 Gross Income £'000	2012-13 Net £'000
39,230	0	39,230	Police Pay and Allowances		36,222	0	36,222
3,066	0	3,066	PCSO Pay and Allowances		2,724	0	2,724
23,693	0	23,693	Police Staff Pay and Allowances		20,347	0	20,347
1,935	0	1,935	Other Employee Costs		2,825	0	2,825
18,030	0	18,030	Police Pensions - IAS19 Current Service Cost	10	17,790	0	17,790
85,954	**0**	**85,954**	**Total Employee Costs**		**79,908**	**0**	**79,908**
4,820	0	4,820	Premises		5,056	0	5,056
3,563	(3)	3,560	Transport		3,642	(4)	3,638
12,580	(98)	12,482	Supplies and Services		11,813	(73)	11,740
784	0	784	Agency and Contract Services		1,002	0	1,002
120	0	120	Support Services		134	0	134
50,017	(3,745)	46,272	Pension Interest Costs	10	46,258	(3,612)	42,646
157,838	**(3,846)**	**153,992**	**Gross Operating Expenditure**		**147,813**	**(3,689)**	**144,124**
415	0	415	Non Distributed Costs	10	195	0	195
0	(111,549)	(111,549)	Funding from PCC to Reimburse Expenditure by CC		0	(106,618)	(106,618)
158,253	**(115,395)**	**42,858**	**Net Operating Expenditure**		**148,008**	**(110,307)**	**37,701**
(43,155)	0	(43,155)	Pensions Adjustment	10	(37,767)	0	(37,767)
297	0	297	Transfers to/(from) the Short term Compensated Absences Account	11b	66	0	66
115,395	**(115,395)**	**0**	**Total**		**110,307**	**(110,307)**	**0**

13.c Segmental Income and Expenditure

The income and expenditure of the Commissioner's principal segments is recorded in the budget reports for the year as follows:

	North TPA £000s	South TPA £000s	West TPA £000s	CID £000s	UOS £000s	Support Services £000s	Total £000s
Funding provided By PCC to CC	0	0	0	0	0	(106,618)	**(106,618)**
Total Income	**0**	**0**	**0**	**0**	**0**	**(106,618)**	**(106,618)**
Employee expenses	14,711	14,858	15,082	10,818	12,835	9,067	**77,371**
Other operating expenses	801	783	778	1,858	1,126	13,936	**19,282**
Total operating expenses	**15,512**	**15,641**	**15,860**	**12,676**	**13,961**	**23,003**	**96,653**
Net Expenditure	**15,512**	**15,641**	**15,860**	**12,676**	**13,961**	**(83,615)**	**(9,965)**

The comparative information for 2011-12 is as follows:

	North TPA £000s	South TPA £000s	West TPA £000s	CID £000s	UOS £000s	Support Services £000s	Total £000s
Funding provided By PCC to CC						(111,549)	**(111,549)**
Total Income	**0**	**0**	**0**	**0**	**0**	**(111,549)**	**(111,549)**
Employee expenses	15,430	16,016	15,574	10,626	13,051	12,814	**83,511**
Other operating expenses	1,394	1,171	1,108	2,881	900	13,314	**20,768**
Total operating expenses	**16,824**	**17,187**	**16,682**	**13,507**	**13,951**	**26,128**	**104,279**
Net Expenditure	**16,824**	**17,187**	**16,682**	**13,507**	**13,951**	**(85,421)**	**(7,270)**

13.d Reconciliation of Segmental Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

	2011-12 £000s	2012-13 £000s
Net Expenditure in Service Analysis (above)	(7,270)	(9,965)
Add services not included in main analysis	7,271	9,962
Add technical accounting adjustments (not reported in management accounts)	39,443	(37,702)
Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement	(42,858)	32,760
Net Cost of Services in Comprehensive Income and Expenditure Statement	**(3,414)**	**(4,945)**

13.e Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of segmental Income and Expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement. The figures for 2012-13 are as follows:

	Service Analysis £000s	Services not in Analysis £000s	Technical Adjustments £000s	Not included in CI&ES £000s	Net Cost of Services £000s	Corporate Amounts £000s	Total £000s
Funding provided By PCC to CC	(106,618)	0	0	0	**(106,618)**	0	**(106,618)**
Total Income	**(106,618)**	**0**	**0**	**0**	**(106,618)**	**0**	**(106,618)**
Employee expenses	77,371	7,674	(37,702)	32,760	**80,103**	42,646	**122,749**
Other service expenses	19,282	2,288	0	0	**21,570**	0	**21,570**
Total operating expenses	**96,653**	**9,962**	**(37,702)**	**32,760**	**101,673**	**42,646**	**144,319**
(Surplus) or deficit on the provision of services	**(9,965)**	**9,962**	**(37,702)**	**32,760**	**(4,945)**	**42,646**	**37,701**

The comparative information for 2011-12 is as follows:

	Service Analysis £000s	Services not in Analysis £000s	Technical Adjustments £000s	Not included in CI&ES £000s	Net Cost of Services £000s	Corporate Amounts £000s	Total £000s
Funding provided By PCC to CC	(111,549)	0	0	0	**(111,549)**	0	**(111,549)**
Total Income	**(111,549)**	**0**	**0**	**0**	**(111,549)**	**0**	**(111,549)**
Employee expenses	83,511	6,273	39,443	(42,858)	**86,369**	46,272	**219,010**
Other service expenses	20,768	998	0	0	**21,766**	0	**43,532**
Total operating expenses	**104,279**	**7,271**	**39,443**	**(42,858)**	**108,135**	**46,272**	**154,407**
(Surplus) or deficit on the provision of services	**(7,270)**	**7,271**	**39,443**	**(42,858)**	**(3,414)**	**46,272**	**42,858**

Notes to the Accounts

14 Audit Fees

In 2012-13 the Chief Constable incurred the following fees relating to external audit and inspection services provided by the Audit Commission up to September 2012 and by Grant Thornton UK LLP from September 2012.

	2011-12 £'000	2012-13 £'000
Amounts Relating to The Chief Constable		
Fees payable to Grant Thornton UK LLP with regard to external audit services carried out by the appointed auditor.	0	20
Rebate from Audit Commission in year.	0	(1)
Total External Audit Fees for Year	**0**	**19**

15 Agency Services

Expenditure on Agency Services is set out in the table below.

	2011-12 £'000	2012-13 £'000
Police National Computer Costs	218	199
Mutual Aid	249	235
Underwater Search Team	50	60
Others (Vulnerable Persons, crime stoppers, Casualty Bureau)	44	45
	561	**539**

16 Disclosure of Remuneration for Senior Employees

The following table sets out the remuneration disclosures for Senior Officers and Relevant Police Officers whose salary is less than £150,000 but more than £50,000 per year.

The table for 2012-13 includes more officers than in previous years, this reflects a change in decision making arrangements during the year whereby the Extended Chief Officer Group became the formal decision making body for the Constabulary. At stage one of the PCC transition process, all police staff were transferred to the employment of the Commissioner. As a result, the police staff members included in this table are formally employed by the Police and Crime Commissioner but form part of the decision making body of the Constabulary.

The table below includes the costs of the temporary Chief Constable (A) who was suspended on full pay in September 2012. A Temporary Chief Constable has been seconded from Merseyside Police to cover the role but continues to be paid by the Police and Crime Commissioner for Merseyside. Merseyside have recharged costs of this secondment amounting to £108k to the Cumbria for the period September 2012 to March 2013, these costs are included in the accounts of the Chief Constable as third party related expenditure rather than as employee costs and are therefore excluded from the table below.

Notes to the Accounts

The table below gives the information for 2012-13 in £000's.

Postholder Information Post Title	Note	Salary (including Fees & Allowances)	Bonuses	Expense Allowances	Benefits in Kind	Termination Pay & Compensation for Loss of Office	Other Payments (Police Officers Only)	Total Remuneration Excluding pension Contributions	Pension Contributions	Total Remuneration Including pension Contributions
Temp. Chief Constable (A)	1	131	0	0	6	0	2	**139**	32	**171**
Temp. Deputy Chief Constable (B)	2	108	0	0	5	0	2	**115**	26	**141**
Assistant Chief Constable	3	109	0	7	0	0	3	**119**	26	**145**
Chief Superintendent (A)		79	4	2	1	0	5	**91**	19	**110**
Chief Superintendent (B)		79	4	1	1	0	5	**90**	19	**109**
Chief Superintendent (C)		79	4	3	1	0	3	**90**	19	**109**
Chief Superintendent (D)		79	4	4	0	0	0	**87**	19	**106**
Superintendent		73	4	2	0	0	3	**82**	17	**99**
Head of Financial Services	4	55	1	0	0	0	0	**56**	6	**62**
Director of Corporate Support	5	72	0	1	0	0	0	**73**	8	**81**
Director of Corporate Improvement	6	70	0	0	0	0	0	**70**	8	**78**
Director of Finance & Resources	7	46	0	0	0	101	0	**147**	5	**152**
Director of Human Resources	8	29	0	0	0	127	0	**156**	3	**159**
Director of Legal Services		70	0	2	1	0	0	73	8	**81**
Total		**1,079**	**21**	**22**	**15**	**228**	**23**	**1,388**	**215**	**1,603**

Notes:

1 - Temporary Chief Constable (A) was suspended on the 13 September 2012 and remained on full pay. A temporary Chief Constable has been seconded from Merseyside Police to cover the role with effect from 13 September 2012, but continues to be paid by Merseyside Police & Crime Commissioner.

2 - Temporary Deputy Chief Constable (B) was promoted to Temporary Deputy Chief Constable on 12 November 2012 from the role of Assistant Chief Constable.

3 - The Assistant Chief Constable was acting as Temporary Deputy Chief Constable until 12 November 2012.

4 - The Head of Financial Services was appointed as Section 151 Officer on 1 November 2012, figures include a full years salary details.

5 - The Director of Corporate Support was appointed on the 7 November 2012, figures include a full years salary details.

6 - The Director of Corporate Improvement was appointed on the 1 November 2012, figures include a full years salary details.

7 - The Director of Finance & Resources left the organisation on the 1 November 2012, figures are part year but include final payments made in April 2013.

8 - The Director of Human Resources left the organisation on the 10 August 2012, figures are part year.

The comparative figures for 2011-12 in £000's, are set out in the table below:

Postholder Information Post Title	Note	Salary (including Fees &	Bonuses	Expense Allowances	Benefits in Kind	Other Payments (Police Officers Only)	Total Remuneration Excluding pension	Pension Contributions	Total Remuneratio
Chief Constable (A)	1	108	0	0	3	11	**122**	25	**147**
Chief Constable (B) / Deputy Chief Constable (A)	2	114	0	0	3	3	**120**	28	**148**
Deputy Chief Constable (B) / Assistant Chief Constable (A)	3	105	0	8	0	3	**116**	25	**141**
Assistant Chief Constable (B)		107	0	1	5	1	**114**	26	**140**
Total		**434**	**0**	**9**	**11**	**18**	**472**	**104**	**576**

Notes:

1 - Chief Constable (A) resigned with effect from 22 January 2012.

2 - The Deputy Chief Constable (A) was promoted to Chief Constable (B) with effect from 23 January 2012.

3 - The Assistant Chief Constable (A) was temporarily promoted to Deputy Chief Constable (B) with effect from 23 January 2012.

17 Employee Remuneration

The Code of Practice on Local Authority Accounting requires the disclosure of the number of employees and senior police officers (defined as those holding a rank **above** that of superintendent) whose remuneration, excluding pension's contributions, exceeded £50,000 in 2012-13 in bands of £5,000. This is set out in the table below:

Remuneration Band	2011-12 Police Staff	2011-12 Snr Police Officers	2011-12 Total	2012-13 Police Staff	2012-13 Snr Police Officers	2012-13 Total
£50,000 to £54,999	1	0	**1**	0	0	**0**
£55,000 to £59,999	0	0	**0**	1	0	**1**
£60,000 to £64,999	0	0	**0**	0	0	**0**
£65,000 to £69,999	0	0	**0**	0	0	**0**
£70,000 to £74,999	0	0	**0**	0	0	**0**
£75,000 to £79,999	0	0	**0**	0	0	**0**
£80,000 to £84,999	0	1	**1**	0	1	**1**
£85,000 to £89,999	0	3	**3**	0	3	**3**
£90,000 to £94,999	0	0	**0**	0	0	**0**
£95,000 to £99,999	0	0	**0**	0	0	**0**
£100,000 to £104,999	0	0	**0**	0	0	**0**
£105,000 to £109,999	0	1	**1**	0	0	**0**
£110,000 to £114,999	0	1	**1**	0	2	**2**
£115,000 to £119,999	0	0	**0**	0	0	**0**
£120,000 to £124,999	0	2	**2**	0	0	**0**
£125,000 to £129,999	0	0	**0**	0	0	**0**
£130,000 to £134,999	0	0	**0**	0	0	**0**
£135,000 to £139,999	0	0	**0**	0	0	**0**
£140,000 to £144,999	0	0	**0**	0	1	**1**
£145,000 to £149,999	0	0	**0**	0	0	**0**
£150,000 to £154,999	0	0	**0**	0	0	**0**
£155,000 to £159,999	0	0	**0**	0	0	**0**
Total	**1**	**8**	**9**	**1**	**7**	**8**

The above table includes only those police staff deemed as operational over which the Chief Constable has delegation and direction and control. Other police staff in support functions for which decision making rests with the Commissioner's Chief Executive are included in the single entity statements of the Commissioner. These staff provide support on a shared service basis to the Commissioner and the Chief Constable and are recharged between the single entity statements.

The table above includes those employees and senior police officers that are also required to be disclosed on a more detailed individual basis. Please see note 16 for more information.

18 Exit Packages

The numbers of exit packages with total cost per band and a total cost of the compulsory and other redundancies are set out in the table below:

Exit package cost band (including special payments)	Number of Compulsory Redundancies		Number of other Departures Agreed		Total Number of Exit Packages by cost band		Total cost of exit packages in each band	
	2011-12 Headcount	2012-13 Headcount	2011-12 Headcount	2012-13 Headcount	2011-12 Headcount	2012-13 Headcount	2011-12 £000's	2012-13 £000's
£0-£20,000	8	2	37	5	45	7	383	93
£20,001 - £40,000	4	4	17	7	21	11	569	320
£40,001 - £60,000	1	1	5	2	6	3	283	142
£60,001 - £80,000	0	1	4	0	4	1	301	62
£80,001 - £100,000	0	1	0	0	0	1	0	94
£100,001 - £150,000	0	0	0	1	0	1	0	122
Total	**13**	**9**	**63**	**15**	**76**	**24**	**1,536**	**833**

19 Termination Benefits

During 2012-13 the contracts of a number of employees were terminated incurring termination costs amounting to £1,134k (£1,768k in 2011-12). As this amount is significant in terms of the 2012-13 accounts the amount has been shown as a separate "exceptional item" on the face of the Comprehensive Income and Expenditure Statement (page 26), see also note 24 below.

This amount is made up exit packages paid in 2012-13 and a provision for exit packages to be paid in 2013-14 where the decision to terminate employment has been made in 2012/13.

The exit packages amount to £833k (£1,536k in 2011-12). The exit packages can be further split into compensation for loss of employment £689k (£1,089k in 2011-12) and enhanced pension benefits £144k (£447k in 2011-12). The redundancies are as a result of the Constabulary's change programme. The Exit Packages note above (note 32) provides details of the number and total cost of exit packages per band and include those exit packages paid in 2012-13 and those agreed for individuals in 2012-13 but paid in 2013-14 for which an accrual was made in the 2012-13 accounts.

A further amount of £532k (£232k in 2011-12) has been set aside in a provision to pay termination costs as a result of decisions made in principle in 2012-13 but where there was some uncertainty over the individual staff or timing of the termination but for which a reasonable estimate can be made of amount of the probable obligation. This amount is netted down by costs charged against the provision in respect of 2011-12 decisions provided for at the year end where the payment was actually made in 2012/13 of £232k, providing a net movement on the provision of £301k.

20 Related Party Transactions

The Chief Constable is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Chief Constable or to be controlled or influenced by the Chief Constable. Disclosure of these transactions allows readers to assess the extent to which the Chief Constable might have been constrained in his ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Chief Constable.

20.a Police and Crime Commissioner

The Police and Crime Commissioner has direct control over the Chief Constable's finances, providing funding for all running costs and taking responsibility for funding of all pensions' liabilities. The Commissioner is responsible for setting the Police and Crime Plan. The Chief Constable retains operational independence and operates within the funding agreement set by the Commissioner, to deliver the aims and objectives set out in the Police and Crime Plan. Section 28 of the Police Reform and Social Responsibility Act 2011 requires that the local authorities covered by the police area must establish a Police and Crime Panel (PCP) for that area. The PCP scrutinises the decisions of the Commissioner, reviews the Police and Crime Plan and has a right of veto over the precept.

20.b Central Government

Central government has effective control over the general operations of the Chief Constable – it is responsible for providing the statutory framework within which the Chief Constable operates and provides the majority of its funding via the Commissioner.

20.c Officers and Employees

Senior officers and staff of the Constabulary were asked to declare any direct financial relationship through outside bodies or companies with the Chief Constable. No material transactions have been reported in respect of the 2012-13 financial year.

20.d Other Public Bodies

The Chief Constable's transactions with the Cumbria Local Government Pension Scheme (administered by County Council) are shown in note 10.

21 Contingent Liabilities

Insurance Claims

A number of claims are being pursued against the Chief Constable, the majority of which will be contested. The Chief Constable maintains provisions to meet the costs of uninsured liabilities and legal costs and considers that there is no need to make further provision for these claims.

Redundancy Costs

In response to future reductions in government funding it will be necessary to further reduce the number of police staff. It is anticipated that the reduction will be primarily achieved through a combination of voluntary and compulsory redundancies. Redundancy costs arising from decisions made up to 31 March 2013 have been recognised in the 2012-13 Comprehensive Income and Expenditure Statement, however a number of reviews are currently ongoing which could give rise to further redundancy costs, although no firm decisions have been made as yet. It is anticipated that future redundancy costs will be met from the earmarked reserve set up for management of change costs in the Commissioner's accounts, the balance of which stood at £2,010k at 31 March 2013.

Injury pensions

A recent tribunal case regarding the payment of injury pensions to a retired police officer has highlighted a conflict between police (injury benefits) regulations and social security legislation. The implication of the ruling is that police injury benefits should no longer be reduced by entitlement to social security benefits. At this stage it is unclear if the decision will have a retrospective impact on police organisations or if the change will be implemented on a future claims basis only. In the absence of further guidance from the Home Office and Department for Work and Pensions, this matter has been treated as a contingent liability in the 2012-13 statement of accounts.

22 Trust Funds

Members of the Constabulary are appointed as trustees for a number of Trust Funds. The aim of the funds is to assist members and ex-members of the force by offering grants and loans to those who suffer financial hardship. Income to the funds is generated principally by contributions made by serving officers and donations made by members of the public. The funds are invested in a mixture of interest earning bank accounts and listed securities. The funds are not assets of the Chief Constable and are not included in the Balance Sheet.

The funds are overseen by a Management Committee, which includes representation from the Police Federation and Superintendents Association. As at 31 March 2013, 74% of the officers in the Constabulary were members of the Funds. Details of the principal funds are listed in the table below for year ended 31 December 2012 for information only.

	Balance 01.01.12 £'000	Receipts 2012 £'000	Payments 2012 £'000	Balance 31.12.12 £'000
Cumbria Constabulary Trust Funds				
- Benevolent Fund	81	185	(16)	250
- Mutual Aid	59	78	(73)	64
- Mutual Aid Fund	94	10	(4)	100
(Death Benefit Scheme)				
	234	**273**	**(93)**	**414**

The comparative figures for the year ended 31 December 2011 were as follows:

	Balance 01.01.11 £'000	Receipts 2011 £'000	Payments 2011 £'000	Balance 31.12.11 £'000
Cumbria Constabulary Trust Funds				
- Benevolent Fund	68	23	(10)	81
- Mutual Aid	65	77	(83)	59
- Mutual Aid Fund	95	5	(6)	94
(Death Benefit Scheme)				
	228	**105**	**(99)**	**234**

23 Accounting Standards that have been Issued but have not yet been Adopted

For 2012-13, the following accounting policy changes need amendment to be reported relating to:

- amendments to IAS 1 Presentation of Financial Statements (other comprehensive income, June 2011),
- amendments to IFRS 7 Financial Instruments disclosures (offsetting financial assets and liabilities, December 2011),
- amendments to IAS 12 Income Taxes (deferred tax: recovery of underlying assets, December 2010),
- amendments to IAS 19 Employee benefits (June 2011), and
- IFRS 13 Fair Value Measurement (May 2011).

In the Financial Statements for 2013-14, the effect of the change will be assessed and where necessary, the comparative figures restated.

24 Exceptional Item

The 2012-13 Comprehensive Income and Expenditure Statement (page 26) and comparative information for 2011-12, includes an exceptional item in respect of termination payments (redundancy/compensation for loss of employment and enhanced pension costs) made as a result of the Constabulary's change programme. The amount of £1,134k (£1,768k in 2011-12) is made up of £833k in respect of exit packages paid or accrued in 2012-13 (£1,536k in 2011-12) and £301k net movement in contribution to/from a provision in respect of probable obligations arising from decisions made in 2012-13 where the individuals will leave the Constabulary in 2013-14 and for which a reasonable estimate can be made of the amount of the obligation (£232k in 2011-12), see notes 18 and 19 above.

25 Prior Period Adjustment

As there were no single entity statements produced for 2011-12, there are no prior period adjustments to be reported.

Police Officer Pension Fund Account

Fund Account

This statement provides information on transactions on the Police Pension Fund Account for the 2012-13 financial year together with comparative information for 2011-12.

	2011-12 £'000	2012-13 £'000
Contributions Receivable		
Employer		
- Contributions at 24.2% of Pensionable Pay	(10,364)	(9,987)
Officers' Contributions		
- 1987 Scheme Member Contributions (at 12.25%-12.5%)	(4,081)	(4,325)
- 2006 Scheme Member Contributions (at 10.1%-10.75%)	(514)	(614)
	(14,959)	**(14,926)**
Transferees in from Other Schemes	(289)	(180)
Capital Equivalent charge for ill-health schemes	(141)	(231)
	(430)	**(411)**
Benefits Payable		
Recurrent Pensions	20,112	21,515
Commutations and Lump Sums	5,456	5,796
Other - Adjustments in relation to 1974 Police Boundary Changes	39	0
	25,607	**27,311**
Payments to and on Account of Leavers		
Refund of Contributions	13	0
Transfer out to other schemes	73	84
	86	**84**
Net Amount Payable for the Year	**10,304**	**12,058**
Additional Contribution from the Police & Crime Commissioner	(10,304)	(12,058)
Net Amount Payable (Receivable) for the Year	**0**	**0**

Net Assets Statement

This statement shows the net assets and liabilities of the scheme as at 31 March 2013.

	2011-12 £'000	2012-13 £'000
Current Assets		
Pensions Benefits paid in advance	1,807	1,906
Current Liabilities		
Amount due to the Police & Crime Commissioner	(1,807)	(1,906)
	0	**0**

Notes to the Police Officer Pension Fund Account

Accounting Policies

The Police Pension Fund Accounts have been prepared in accordance with the requirements of the Police Pension Fund Regulations 2007 (SI 2007 No 1932). The Pensions Fund Accounts are administered by the Chief Constable and have been prepared on an accruals basis.

Operation of Police Pensions Schemes

There are two Pensions Schemes for Police Officers. These are unfunded schemes, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pension payments as they fall due. The second scheme was introduced in April 2006 with the intention that joint contributions of employers and employees would finance the full costs of pension liabilities. All Police Officers recruited from April 2006 onwards automatically become members of the new scheme and the previous scheme has been closed to new members. Officers who are members of the old scheme are allowed by regulation to become members of the new (2006) scheme if they so wish. Members' contribution rates are between 10.1% and 10.75% for the new scheme and between 12.25% and 12.5% for the old scheme. The financial statements for the Police Officer pension fund account do not take account of liabilities to pay pensions and other benefits after the period end. Details of the Chief Constable's long term pensions obligations can be found in the main accounting statements (see Balance Sheet page 27). Detailed disclosure notes regarding the Police Pension schemes can be found in note 10 to the core financial statements (pages 35-40).

Funding of Police Pension Schemes

In 2006-07 a new arrangement was established to fund Police Pensions. This revised arrangement is for both new and existing police officer schemes, but has no effect on the benefit structures of either scheme. The purpose of the change is to smooth fluctuations in costs that would previously have been charged to the Chief Constable's Comprehensive Income and Expenditure Statement on a 'pay as you go basis' and to more clearly show the effect of the liability as opposed to current pension payments. Under the revised arrangements the liability for payment of police pensions is removed from the Chief Constable and replaced with an employers' contribution, currently set at 24.2% of pensionable pay, which, along with the employee contributions and any transfer values, is paid into the pensions account. The employee's and employer's contribution levels are based on percentages of pensionable pay set nationally by the Home Office and are subject to periodic revaluation by the Government Actuary's Department. Pensions are then paid from this account. The pensions account is balanced to nil annually, with any shortfall met by a top up from the Police and Crime Commissioner, or vice versa. However, the Home Office indemnify the Commissioner against any financial liability arising from a deficit on the Pension Account by providing a grant to the Commissioner equal to the Commissioner's top up. Similarly, any surplus on the Pension Account is ultimately repayable to the Home Office.

Glossary of Terms

Accruals
The concept that income and expenditure are recognised as they are earned or incurred, not as money is paid or received.

ACPO
The Association of Chief Police Officers.

Actuarial Valuation
A valuation of assets held, an estimate of the present value of benefits to be paid and an estimate of required future contributions, by an actuary, on behalf of a pension fund.

Agency Costs
Services which are performed by or for another authority or public body, where the agent is reimbursed for the cost of the work done.

Amortisation
The practice of reducing the value of assets to reflect their reduced worth over time. The term means the same as depreciation, though in practice amortisation tends to be used for the write-off of intangible assets, such as goodwill.

Budget
A statement of the Police and Crime Commissioner's plans in financial terms. A budget is prepared and approved by the Police and Crime Commissioner before the start of each financial year and is used to monitor actual expenditure throughout the year.

Capital Adjustment Account
The CAA records the balance of resources set aside to finance capital expenditure (i.e. Capital Receipts, Minimum Revenue Provision (MRP), Direct Revenue Contributions (DRC) and Deferred Grants Account (DGA)) and also the consumption of resources associated with the historical cost of acquiring, creating or enhancing non-current assets over the life of those assets (i.e. depreciation/impairment).

Capital Expenditure
As defined in section 16 of the Local Government Act 2003 and regulation 25 of the Capital Finance and Accounting Regulations 2003, but broadly expenditure on the acquisition of a non-current asset or expenditure which adds to and not merely maintains the value of an existing non-current asset.

Capital Receipt
Monies received from the sale of capital assets, which may be used to finance new capital expenditure or to repay outstanding loan debt as laid down within rules prescribed by Central Government. Capital Receipts cannot be used to finance revenue expenditure, with the exception that from 1 April 2010, up to 4% of sale proceeds may be transferred to the General Fund to finance costs directly associated with the disposal of the asset.

Cash and Cash Equivalents
Cash is represented by cash in hand and in bank accounts. Cash Equivalents include demand deposits with financial institutions which are highly liquid in that they are repayable without penalty on notice of not more that 24 hours.

Glossary of Terms

CC
The Chief Constable for Cumbria Constabulary.

CC CFO
The Chief Constable's Chief Finance Officer.

CIPFA
The Chartered Institute of Public Finance and Accountancy. The main professional body for accountants working in the public services.

Componentisation
Identifying and depreciating the components of an asset separately if they have differing patterns of benefits relative to the total cost of the asset.

Contingency
A sum set aside to meet unforeseen expenditure.

Creditors
Amounts owed by the Police and Crime Commissioner for goods and services provided which had not been paid for at the end of the financial year.

Debtors
Amounts owing to the Police and Crime Commissioner but not received at the end of the financial year.

DCLG
The Department for Communities and Local Government, responsible for funding elements of Police and Crime Commissioner's specific and external grant aid.

Depreciation
The measure of the wearing out, consumption, or other reduction in the useful economic life of a non-current asset, whether arising from use, passage of time or obsolescence through technological or other changes.

Direct Revenue Contributions (DRC)
Resources provided from the Police and Crime Commissioner's revenue budget to finance the cost of capital projects.

Earmarked Reserves
Those elements of the Police Fund that have been set aside, "earmarked", for specific purposes.

Heritage Assets
A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge or culture.

HMIC
Her Majesty's Inspectorate of Constabulary who are a government agency responsible for monitoring the standards and performance of Constabularies.

Glossary of Terms

Impairment
A reduction in the value of a non-current asset below its carrying amount on the balance sheet.

Leasing
A method of financing expenditure over a period of time. There are two main types of lease:

- Finance Lease - where the risks of ownership are transferred to the lessee and where the assets are recorded in the Police and Crime Commissioner's balance sheet at a current valuation.

- Operating Lease - where the risks of ownership stay with the leasing company and the annual rental charges are made via the Revenue Account.

Minimum Revenue Provision (MRP)
The minimum amount which must be set aside in the Revenue Account each year as a provision for credit liabilities.

Non-current Assets
An asset, which will yield a benefit to the Police and Crime Commissioner for a period of more than one year.

PCC
The Police and Crime Commissioner for Cumbria.

PCC CFO
The Police and Crime Commissioner's Chief Finance Officer.

Pension actuarial gains and losses
For a defined benefit scheme, the changes in actuarial deficits or surpluses that arise because:

- events have not coincided with actuarial assumptions made for the last valuation (experience gains and losses) or
- the actuarial assumptions have changed.

Pension – current service costs
The increase in the present value of a defined benefit's liabilities expected to arise from employee service in the current period.

Pension – defined benefit scheme
A pension or other retirement benefit scheme other than a defined contribution scheme. The scheme rules define the benefits independently of the contribution payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

Pension assets – expected rate of return
For a funded defined benefits scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Glossary of Terms

Pension – interest costs
For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Pension - past service costs
For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Precept
The demands made by the Police and Crime Commissioner on the district councils who are the billing authority in relation to the collection of council tax.

Provision
An amount set aside to provide for a liability which is likely to be incurred, although the amount and date of that liability are uncertain.

Public Works Loan Board (PWLB)
A Government agency which provides longer term loans to Local Authorities at interest rates which are only slightly higher than those at which the government itself can borrow.

Reserves
An amount set aside for a specific purpose and carried forward to meet expenditure in future years. The Police Fund represents accumulated balances which may be used to support future spending.

Revaluation Reserve
The revaluation reserve records the unrealised net gain from revaluation of non-current assets made after 1 April 2007. The balance is made up of individual credit balances associated with specific assets and will be equal to the difference between the current value net book value (NBV) and the historic cost NBV for all assets.

Revenue Support Grant
A grant from the Department of Communities and Local Government (DCLG) towards the cost of Police and Crime Commissioner services.

SERCOP
The CIPFA Service Reporting Code of Practice. It was introduced as part of the Best Value Regime to bring about more consistent accounting treatment of costs and to facilitate more meaningful financial comparisons between Authorities.

The Commissioner
The Police and Crime Commissioner for Cumbria.

TPA
Territorial Policing Area.

CUMBRIA
CONSTABULARY
SAFER STRONGER CUMBRIA

The Chief Constable for Cumbria Constabulary Annual Governance Statement 2012-13

INTRODUCTION AND SCOPE OF RESPONSIBILITIES

1.1 The Chief Constable for Cumbria Constabulary (the Chief Constable) is responsible for ensuring business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

1.2 In discharging this overall responsibility, the Chief Constable is responsible for putting in place proper arrangements for the governance of affairs and facilitating the exercise of functions, which includes arrangements for the management of risk.

1.3 The Chief Constable is operating under the Police and Crime Commissioner's local code of corporate governance 'The Code' as an interim measure, which is consistent with the CIPFA /SOLACE Good Governance Framework. This statement explains how the Chief Constable has complied with The Code. It also meets the requirements of regulation 4(3) of the Accounts and Audit (England) Regulations 2011 in relation to the publication of an annual governance statement, which must accompany the statement of accounts.

PURPOSE OF THE GOVERNANCE STATEMENT

2.1 The governance framework comprises the systems, processes, culture and values by which the Constabulary is directed and controlled and the activities through which the organisation accounts to and engages with the community. The framework enables the Chief Constable to monitor the achievement of strategic objectives and to consider whether those objectives have led to the delivery of appropriate efficient and effective services.

2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable and foreseeable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of

effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Chief Constable's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them effectively, efficiently and economically.

2.3 The governance framework has been in place for the year ended 31 March 2013 and up to the date of approval of the Annual Report and Statement of Accounts. The findings of the review of the system of internal control will be reported to the Chief Officer Group in June 2013 and to the Audit and Standards Committee in June 2013.

THE GOVERNANCE FRAMEWORK AND ITS EFFECTIVENESS

3.1 The key elements of the system and processes that comprise the Chief Constable's governance arrangements are detailed in this section. The elements are based on the six core principles of Corporate Governance from the CIPFA/Solace Governance Framework, the standard against which all local government bodies, including police, should assess themselves.

3.2 The Chief Constable has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by senior managers within the organisation who have responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor's annual report, the view of the external auditor through their annual governance statement and other review inspectorates.

3.3 The Joint Audit and Standards Committee, operated in conjunction with the Police and Crime Commissioner, has specific responsibility for providing an independent assurance function in respect of the arrangements for governance including risk management. The work of the Audit and Standards Committee over the period of the Governance Statement contributes to the review process by providing evidence in support of the effectiveness of arrangements.

Six Core Principles of Governance

1. *Focusing on the purpose of the Constabulary and on outcomes for the community, creating and implementing a vision for the local area*
2. *Leaders, officers and partners working together to achieve a common purpose with clearly defined functions and roles*
3. *Promoting values for the Constabulary and demonstrating the values of good governance through upholding high standards of conduct and behaviour*
4. *Taking informed and transparent decisions which are subject to effective scrutiny and managing risk*
5. *Developing the capacity and capability of the Chief Constable and officers of the Chief Constable to be effective*
6. *Engaging with local people and other stakeholders to ensure robust public accountability*

3.4 The Audit and Standards Committee will also receive and scrutinise the report of the Chief Finance Officer reviewing the effectiveness of internal audit and the Annual Governance Statement. An annual report of the work of the Committee is produced and submitted to the Executive Board. The report aims to assess the effectiveness of the Committee as a contribution to the effectiveness of overall governance arrangements.

3.5 Internal audit perform a range of reviews based on an agreed audit plan. The plan has regard to risks and recognises that key financial systems need to be reviewed on an annual basis to allow the external auditors to give an opinion on the accounting statements. The work of internal audit contributes to the review of the effectiveness of governance by identifying the effectiveness of internal controls and providing an overall opinion annually on the control environment.

3.6 The following paragraphs detail the Chief Constable's governance framework, reviewing the requirements and arrangements in place to meet of each of the six governance principles. At the end of each section there is a commentary on areas for developments and improvement. .

3.7 The Governance Statement is submitted for examination by the Chief Constable's Internal Auditors, who will report to the Executive Board and the Audit and Standards Committee.

Bernard Lawson

Temporary Chief Constable

Signatures have been removed for the purposes of publication on the website

Roger Marshall

Chief Finance Officer

Core principle 1: Focusing on the purpose of the Chief Constable and on outcomes for the community, and creating and implementing a vision for the local area

REVIEW OF REQUIREMENTS AND ARRANGEMENTS

4.1 The Chief Constable determines the strategic direction and objectives for the Constabulary. This supports the Police and Crime Commissioner in developing his Police and Crime Plan. The Commissioner approves policing objectives, which are incorporated into the plan, which is available on the Commissioners website at www.cumbria.pcc.gov.uk

4.2 The Constabulary's vision and strategic priorities take into consideration the views of the community, staff and partners as well as the Strategic Policing Requirement set by the Home Secretary. Performance results, operational intelligence, strategic risks and the results of audits and inspections are also taken into consideration when setting strategic priorities. The Constabulary's vision and priorities are also developed at strategic planning days attended by senior managers and have been communicated to officers and staff through a series of road-shows

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The Strategic Policing Requirement sets out the capabilities we are expected to have to support national policing objectives.

4.3 The Constabulary develops a strategic work programme to deliver its priorities. The strategic work programme is based on

- The Strategic Assessment (a document which sets out the Chief Constable's operational priorities based upon performance and intelligence)
- The Change Strategy, which sets out how the Constabulary will improve and deliver savings to balance its budget.
- The Business Strategy, which describes what and how the Constabulary will deliver ICT, personnel, training and other essential support services.
- The Workforce Plan, which describes how the Constabulary will provide the officers and staff required to deliver operational and other policing services.

The strategic work programme supports and informs the Police and Crime Plan and is underpinned by a medium term financial forecast, which ensures that funding is aligned to the resources required to deliver policing priorities.

The Constabulary's Priorities

'Community Policing is Our Priority.'

Maintain low crime and anti-social behaviour levels.

Address alcohol related crime and disorder.

Tackle the problem of drugs supply.

Focus on violent and acquisitive crime.

Maintain detection rates

Improve use of restorative justice.

Target domestic abuse and sexual violence.

4.4 The Constabulary reviews its vision and strategic activities annually to ensure that they continue to support the Police and Crime Plan and the Constabulary's priorities. To support this process the strategic and financial planning within the Constabulary are co-ordinated to ensure that the Commissioner's reporting requirements and decision making processes form part of the overall planning cycle of the Constabulary.

4.5 The Constabulary reviews its governance arrangements on a regular basis to reflect development in the Police and Crime Plan and to support delivery of its own vision and priorities, making adjustments as necessary.

4.6 Key performance indicators are set to support the objectives within the Police and Crime Plan and the Constabulary's own priorities. This is supported by a comprehensive performance management framework, which is developed jointly with the Commissioner. The performance framework supports the Commissioner in holding the Chief Constable to account for the performance of the Constabulary and is also used to direct and manage activity within the Constabulary. All Constabulary operational and business units agree annual performance contracts with the Chief Constable linked to the strategic objectives set out in the Police and Crime Plan and the Constabulary's strategic work programme, from which individual personal development objectives are agreed for all officers and staff.

4.8 Clear lines of accountability and processes are in place within the Constabulary to monitor and manage delivery of operational and business objectives including :-

- An established board structure with clear terms of reference / areas of responsibility.
- Chief Officer's holding managers to account for delivery of their performance contracts in Performance Development Conferences.
- Performance management figures which are published on a dashboard available to all Constabulary officers and staff and the Commissioner,

which are updated daily. These figures are subject to statistical analysis to identify areas where significant change is occurring.

- Monthly meetings between chief officers and their senior management to discuss progress on Performance Contracts.
- Monthly performance reports which are presented to the Chief Officer Group and the Commissioner's Executive Board.
- Quarterly performance reports which are presented to the Chief Officer Group and the Commissioner's Executive Board and published on the Commissioner's website.

Her Majesty's Inspectorate of Constabulary (HMIC) also continuously monitors Constabulary performance against other forces and carries out inspections of the Constabulary for themes agreed with the Home Secretary.

4.9 User Satisfaction Performance measures are included in the Performance Management Framework. The Constabulary also pursues strategies to engage effectively with service users including crime surveys and community meetings, with the aim of better meeting the needs of users. A procedure for complaints enables the public to raise concerns about services.

4.10 The Constabulary has developed and agreed a Continuous Improvement, Efficiency and Value for Money Strategy, which sets out the principles the Constabulary will follow and specific reviews, which aim to secure maximum value from the resources available to it. The strategy utilises HMIC Value for Money profiles and Police Objective Analysis data, to identify service areas where there is potential to achieve savings.

4.11 A funding arrangement between the Police and Crime Commissioner and the Constabulary, which clearly defines the purpose of the funding and sets out information and monitoring requirements to ensure funding is targeted on activities that support the priorities and outcomes within the Police and Crime Plan.

AREAS FOR FURTHER DEVELOPMENT AND IMPROVEMENT

4.12 The Police and Crime Plan and the Constabulary's strategic work programme are subject to annual review in line with the medium term financial forecast. Each review will evaluate and determine any implications for the governance arrangements with appropriate amendments being made as necessary.

4.13 During 2013-14 Commissioners are required to submit to the Home Secretary a scheme that sets out arrangements for staff and other resources currently employed or owned by the Commissioner to be transferred to the Chief Constable. The scheme is expected to include all operational staff but may include other assets and non-operational roles. The Local Code of Governance and all key governance documents, which outline the working practices operated by the Chief Constable and the Police and Crime Commissioner, including the scheme of delegation, financial regulations and contract standing orders, will need to be reviewed to reflect the implications of stage 2.

4.14 The funding arrangement between the Commissioner and the Chief Constable will need to be amended to reflect the financial implications of stage 2 transfers and any consequential changes in expenditure between the two entities.

4.15 The Constabulary will publish an annual report, showing what has been achieved and information for the public. This document will be published on the Constabulary's website and through the media.

4.16 An individual Officer Performance Dashboard has been developed and is being piloted. This enables sergeants to quickly view their officers' workload and will form the basis of regular one to one performance meetings, improving supervision and productivity.

4.17 Customer Journey Mapping is being undertaken to improve the quality of service provided to all users and particularly diverse groups. This involves interviewing individual service users and organisations representing specific groups about their actual experience of using police services. This will be fed back to senior management to inform improvements in services.

Core Principle 2: Leaders, officers and partners working together to achieve a common purpose with clearly defined functions and roles

REVIEW OF REQUIREMENTS AND ARRANGEMENTS

5.1 The key functions and roles of the Chief Constable and the Police and Crime Commissioner are set out in the Police Reform and Social Responsibility Act 2011 (PRSRA) and the Policing Protocol Order 2011 (PPO). The PRSA and the PPO also set out the function and roles of statutory officers. Both the Commissioner and Chief Constable must appoint a CFO and further guidance on their roles and functions is provided by the Chartered Institute of Public Finance and Accountancy (CIPFA) in a statement on the Role of the Chief Finance Officer (the CIPFA statement).

Key functions and role of the Commissioner	Key functions and role of the Chief Constable
Sets strategic direction & objectives of the force, issues the Police and Crime Plan (the Plan) & an annual report	Maintaining the Queen's Peace and the exercise of police powers; politically and operationally independent
Holds the Chief Constable to account for the exercise of his/her functions and force performance; Monitors complaints.	Leading the force, planning police functions; appointing officers and staff; managing complaints
Receives all funding, decides the budget & precept; allocates funding to maintain an efficient and effective police force	Accountable to the Commissioner for efficient and effective policing, management of resources and expenditure
Provides the link between the police and communities; publishes information on Commissioner and force performance	Being the operational voice of policing, publically explaining the actions of officers/staff under their command
Responsible for the delivery of community safety, crime reduction & the delivery of criminal justice	Supporting the Commissioner in the delivery of the Plan and in accessing information, officers and staff as required

5.2 The functions and roles sets out in legislation and guidance are codified in the Commissioner's scheme of delegation.

5.3 The wider governance framework further details specific responsibilities of key officers in relation to areas of governance. This includes financial regulations, arrangements for procurement and contracting, anti-fraud and corruption arrangements, decision making and codes of conduct. These documents ensure all staff have a shared understanding of the roles and responsibilities.

5.4 The Police and Crime Plan recognises the importance of partnership working between the Chief Constable and the Commissioner to develop the future direction of policing, policy and strategy that takes account of public priorities. An Executive Board structure comprising the Commissioner, Chief Constable, Chief Executive and the Commissioner's Chief Finance Officer supports joint working and facilitates the arrangements for accountability and performance monitoring. The board provides a mechanism through which the Chief Constable provides briefings on matters or investigations over which the PCC may need to provide public assurance. The Constabulary has also agreed a media protocol with the Commissioner, setting out who is responsible for communicating information and clearly identifying whether there is a single lead organisation, a joint responsibility or a supporting responsibility.

5.5 The Constabulary has a Chief Officer Group and clearly defined board structure. There are established terms of reference and clear reporting lines to the Chief Officer Group.

5.6 Task and Finish Groups and Steering Groups are set up to ensure that specific priorities are delivered. Members of these groups include police staff and officers from all ranks and level, representing decision makers and practitioners. The groups report into the permanent governance framework to ensure effective and co-ordinated
decision making.

5.7 The Constabulary has a well-defined organisational structure with clear reporting lines. All officers and staff within the Constabulary have job profiles, which include the policing professional framework, defining their roles. Officers and staff have performance development reviews, which include the setting of personal objectives on an annual basis.

5.8 There are national pay scales for police officers and police staff. Terms and conditions of employment are approved nationally for Police Officers, via Police

Regulations and locally for police staff, in conjunction with employee representatives. The Constabulary operates an approved job evaluation scheme.

5.9 The Chief Constable is statutorily required to appoint a Chief Finance Officer. The Chief Finance Office is the financial advisor to the Chief Constable and has statutory responsibility to ensure that the financial affairs of the Chief Constable are properly administered, having regard to their probity, legality and appropriate standards. The CFO provides all financial advice, and ensures systems of internal financial control are effective.

5.10 The Chief Constable is supported by the Director of Legal Services, who is a qualified solicitor, member of the Law Society and member of the Solicitor's Regulatory Authority. The Director of Legal Services is a member of the Chief Officer Group and has responsibility for advising the Chief Constable on legal matters. As a member of the Chief Officer Group, the Director of Legal Services is able to scrutinise the legal implications of all strategic decisions.

5.11 The Police and Crime Plan sets out a Pan-Cumbrian vision. The vision recognises that in preventing crime commitment is needed from a range of organisations involved in policing, community safety and criminal justice. The Constabulary works in partnership with a number of public, private and third sector partners to do this. The Chief Constable reports details of actual and planned collaborative ventures to the Commissioner on a regular basis.

5.12 The financial regulations and contract standing orders, together with the Constabulary's financial rules provide for the regulation of partnership arrangements and to ensure that the purpose of such partnerships is evaluated and risks assessed, before the Constabulary agrees to take part. The Constabulary has also undertaken a Value for Money assessment on its major strategic partnerships.

AREAS FOR FURTHER DEVELOPMENT AND IMPROVEMENT

5.13 The Constabulary is currently operating under the Police and Crime Commissioner's key governance documents including the scheme of delegation, financial regulations and contract standing orders pending consultation. All documents will need to be reviewed to reflect the implications of stage 2. At this point the Constabulary will need to determine whether it is appropriate to share governance documents with the Commissioner or develop its own governance documents.

Core Principle 3: Promoting values for the Chief Constable and demonstrating the values of good governance through upholding high standards of conduct and behaviour

REVIEW OF REQUIREMENTS AND ARRANGEMENTS

6.1 Officers and staff employed by the Constabulary are expected to adhere to the highest standards of conduct and personal behaviour. The requirements of officers are set out in Schedule 2 of the Police (Conduct) Regulations 2012. The requirements of Police staff are set out in the Police Staff Council Standards of Professional Behaviour document.

6.2 The Joint Office of the Police and Crime Commissioner for Cumbria and Cumbria Constabulary Anti-fraud and Corruption Policy sets out clear definitions of fraud and corruption. The policy embodies to the 7 Nolan Principles for Public Life and make clear the duty everyone has with regard to their own actions and conduct and those of others to protect the organisation against fraudulent and corrupt acts. The procedure includes guidance for integrity in respect of gifts and hospitality, completion of a register of interests and declarations of related party transactions. These ensure that staff avoid being engaged in any activity where an actual or perceived conflict may exist and that there is transparency in respect of any personal or business relationships.

6.3 The Constabulary maintains arrangements for confidential reporting (whistleblowing) and guidance for managers with regard to how any reporting will be responded to. These are contained in the Anti- Fraud and Corruption Policy and Procedures and the Professional Standards Confidential Reporting Policy and Procedure. The confidential reporting policies and procedures are supported by a regularly publicised confidential phone line and e-mail reporting system on which individuals can leave anonymous information. The Constabulary also subscribes to and publicises 'Public Concern at Work' (PCaW), an independent authority on public interest whistleblowing to allow employees the facility to report externally to the Constabulary if required.

6.4 The Constabulary has a Professional Standards Department whose role is to promote proper standards of conduct and monitor compliance with codes. The department actively liaises with management teams and other groups with the aim of maintaining high standards of conduct and produces regular reports which set out details of non-compliance with standards and codes.

The Department has its own intranet site to facilitate demonstration of best practice and produces a newsletter highlighting areas of concern and providing guidance. The Professional Standards Department also has an anti-corruption unit whose role is to investigate information and intelligence received concerning the conduct of officers and members of police staff.

6.5 The Professional Standards Department also oversees all complaints, local resolutions and appeals from the public, ensuring compliance with Police Reform Act 2002 and the Police (Complaints and Misconduct) Regulations 2012. These complaints are audited periodically by the Office of the Police and Crime Commissioner. The Chief Constable also has a procedure in place to receive and investigate complaints made to it about the conduct of Association of Chief Police Officers (with the exception of the Chief who is accountable to the Commissioner) under the relevant conduct regulations.

6.6 The Commissioner's financial regulations, under which the Constabulary currently operates, set out the internal framework and procedures for financial regulation and administration. They set out the arrangements for the proper administration of financial affairs ensuring these are conducted properly and in compliance with all necessary requirements. They also seek to reinforce the standards of conduct in public life, particularly the need for openness, accountability and integrity. The financial regulations also re-enforce the anti-fraud and corruption policy,, covering the culture expected within the organisation, responsibilities and measures in place to prevent fraud and corruption and how it will be detected and investigated.

6.7 The Commissioner's Business Code of Conduct, Procurement Policy and Procedures and Contract Standing Orders, under which the Constabulary currently operates, re-enforce the integrity requirements within the anti-fraud and corruption policy in the context of procurement activity and interactions with commercial suppliers. They provide a guide to staff and suppliers in respect of the principles that will be followed in the conduct of business and the processes we expect staff to comply with when buying goods and services.

6.8 The joint Audit and Standards Committee operates within Standing Orders for the regulation of its business. The orders include expectations in respect of the conduct of members and how any conflicts of interest should be managed. Members of the Committee are independent and will scrutinise and monitor the operation and effectiveness the arrangements for governance including the local code of

governance and framework. They will also hear and determine standards appeals.

AREAS FOR FURTHER DEVELOPMENT AND IMPROVEMENT

6.9 The joint Audit and Standards Committee is in its first year of operation. The Committee will review its effectiveness on an annual basis as a contribution to the overall framework of internal control.

6.10 The independent investigation conducted by the Chief Constable for South Wales Police into the conduct of former Temporary Chief Constable Mr Hyde resulted in a total of thirty six recommendations, of which twenty five were applicable to the wider governance arrangements within the Constabulary and those of the Police & Crime Commissioner. In summary the organisational recommendations related to

- The approval of time spent out of force and overseas travel in relation to non-core business such as work on national policing portfolios.
- Adherence to procurement policies including maintenance of a central contracts register.
- Revision of the Anti-Fraud and Corruption Policy to provide greater clarity.
- Registration of offers of gifts and hospitality.
- Recording of contact with the media.
- The use of social media.
- The use of corporate credit cards.

The results of the investigation refer to governance arrangements in place at and up to the four years prior to September 2012. Governance arrangements have been updated both as a consequence of the introduction of the Police and Crime Commissioner and in response to interim reports of the investigation. Nevertheless, a joint action plan has been put in place by the Commissioner and Chief Constable to address the organisational recommendations. Progress against the action plan will be reported to the Joint Audit and Standards Committee. The 2013-14 audit plan will also cover review of the significant areas highlighted in the investigation report.

Core Principle 4: Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.

REVIEW OF REQUIREMENTS AND ARRANGEMENTS

7.1 All decision making operates within the specific legislative and regulatory frameworks that confer on the Chief Constable duties, powers and responsibility. The significant elements of the statutory framework for decision making comprise:

- Various Police Acts, which outline the responsibilities of the Chief Constable and provide clarity on his operational independence.
- The Police Reform and Social Responsibility Act 2011 (PR&SRA) providing the legal framework for decision-making.
- The Policing Protocol Order 2011 setting out the framework within which the PCC & CC should work and requiring all parties to abide by the Nolan Principles; The Home Office Financial Management Code of Practice for the Police Service embedding the principles of good governance into the way the Chief Constable operates.

7.2 Challenge and scrutiny contribute to good governance by being part of accountable decision making, policy making and review. The implementation of a robust decision making process ensures that the right decisions are taken for the right reason at the right time. The Chief Constable adopts rigorous standards of probity, regularity and transparency in decision making and all decisions are taken solely in the public interest and to maintain the Queen's peace.

7.3 The Constabulary has a Chief Officer Group, which has responsibility for strategic decision making and is supported by an established structure of subsidiary boards with defined terms of reference. Formal Chief Officer Group meetings are minuted and decisions recorded. All significant strategic decisions are referred to the Chief Officer Group. A forward plan and standing items ensures that all significant areas of Constabulary business are considered on a regular and planned basis. Reports for decisions are prepared on a standard template, which ensures that the implications of all decisions are clearly understood. This includes relevant financial, legal, human resources, equality, procurement, ICT and risk management advice.

7.4 In the operational environment the Constabulary utilises the National Decision Model (developed by the ACPO Ethics Portfolio and National Risk Co-ordination Group). This is a risk assessment framework and decision making process which is used by all police forces across the country. It provides a logical, evidence based approach to making policing decisions and is used by all police officers in their daily work.

7.5 The National Intelligence Model (NIM) is a business model for law enforcement and it takes an intelligence-led approach to policing. The tasking and co-ordination process within NIM provides police managers with a decision making mechanism to manage their business both strategically (national, regional and constabulary level) and tactically (territorial policing area level). Pro-active leadership is an essential requirement of the tasking and co-ordinating process. Management decisions are based on a full understanding of the problems faced and enable managers to prioritise the deployment of resources at their disposal.

7.6 Items of Constabulary business falling under the remit of the Police and Crime Commissioner are referred to the Commissioner from the Chief Officer Group. Decisions are taken by an Executive Board providing an opportunity for the Chief Constable, Chief Executive and Chief Finance Officer to offer challenge and scrutiny to any reports and recommendations. Relevant officers of the Commissioner and the Chief Constable provide professional advice and expertise. All decision making reports must be submitted 7 days in advance of the meeting other than for urgent items that meet very specific criteria. Decisions for financial investment are subject to a fully developed business case that provides a clear justification for the expenditure. The Commissioner's decision making policy sets out the decision making process and how decisions will be recorded and published to ensure transparency of all decisions taken.

7.7 The arrangements for the Audit and Standards Committee are joint between the Constabulary and Crime Commissioner. The Committee has clear terms of reference and membership that is consistent with the requirements of the Home Office Financial Management Code of practice, CIPFA guidance and the HM Treasury Audit Committee Handbook. Meetings of the Committee are public with published notifications. Agendas and papers are available to the public on the Commissioner's website. Audit Committee members are selected based on a rigorous person specification that requires applicants to demonstrate a sound understanding and relevant professional experience across the fields of finance, internal control and risk

management. Seminars are held prior to Committee meeting to provide any necessary training and briefings.

7.8 The Constabulary's risk management policy sets out the overall arrangements for managing risk within the Constabulary and is based on good practice identified by the Institute of Risk Management. The policy incorporates a clear framework of objectives, designated roles and responsibilities for risk management and provides a mechanism for evaluating and scoring risks to support decision making in respect of mitigating action. Identified risks are logged on a risk register with clear ownership and reviewed regularly as a standing item at strategic and management meetings. Individual departments and commands each maintain risk registers, which are updated on a quarterly basis. Individual risks can be escalated to a strategic risk register for consideration by the Chief Officer Group.

7.9 An annually developed joint internal audit plan uses risk as the basis of developing an audit programme to assess the sufficiency of internal controls and their operational effectiveness. The Chief Internal Auditor (CIA) reports to the Audit and Standards Committee on its findings including recommendations for improvement. The Committee monitors and holds the Constabulary to account for the implementation of audit recommendations. Internal audit makes an annual assessment and reports on the overall arrangements for risk management.

AREAS FOR FURTHER DEVELOPMENT AND IMPROVEMENT

7.10 The current risk management arrangements are being reviewed to ensure that they fit with new organisational structure and relationship with the Police and Crime Commissioner.

7.11 A review of all policy is being undertaken with a view to reducing bureaucracy and making policies and procedures easier for officers and staff to access. This will improve standards and decision making and will reduce risk. As part of this policy review the Constabulary is seeking to adopt the ACPO Authorised Professional Practice, where this is available.

Core Principle 5: Developing the capacity and capability of the Chief Constable and Officers and Staff of the Chief Constable.

REVIEW OF REQUIREMENTS AND ARRANGEMENTS

8.1 The Constabulary's uniformed Statutory Officers are required to complete the Association of Chief Police Officers Strategic Command Course before they are permitted to undertake Chief Officer roles. This course is designed to ensure that senior officers are equipped with the requisite leadership skills and competencies to undertake senior officer roles.

8.2 The Chief Constable's Chief Finance Officer (CFO) is a member of the Chartered Institute of Public Finance and Accountancy (CIPFA). The CFO operates within the guidance set out in the CIPFA Statement on the Role of the Chief Finance Officer of the Constabulary.

8.3 The Constabulary fully utilises the College of Policing leadership programmes to develop its senior officers and staff.

8.4 The Constabulary has an approved training plan, which is updated on a regular basis and aims to address the development needs of officers and staff. The training programme also seeks to provide refresher courses, which ensure that specialist skills are maintained in accordance with relevant best practice. All leadership and learning programmes delivered by Cumbria Constabulary comply with the College of Policing quality assurance and learning requirements.

8.5 All Constabulary officers and staff are required to complete annual Performance Development Reviews part of the function of which are to identify and manage training and development needs aligned to the role or agreed targets and actions

8.6 All Constabulary role profiles specify appropriate essential and desirable skills, experience and qualifications to ensure that employees are able to deliver their responsibilities effectively.

8.7 Areas of corporate training and development need are addressed by a range of training solutions including e-learning, classroom and assessed qualifications, which can be accessed by all officers and staff.

AREAS FOR FURTHER DEVELOPMENT

8.9 The Constabulary holds regular strategic planning days which include consideration of training and development needs for officers and staff. As a result of recent strategic events a plan to implement a

core skills and leadership programme has been produced. This programme will focus on developing the appropriate operational and technical skills needed by officers and staff at all levels, together with an improved focus on developing leaders at all levels within the organisation.

Core Principle 6: Engaging with local people and other stakeholders to ensure robust public accountability

REVIEW OF REQUIREMENTS AND ARRANGEMENTS

9.1 The Constabulary has a Community Engagement and Involvement Strategy, which is reported via the Joint Operational Senior Management Meeting. This includes a consultation action plan, which co-ordinates all on-going consultation activities and is regularly reviewed and refreshed on an annual basis to continually improve consultation arrangements. .

9.2 The Constabulary engages with local communities through the work of its Neighbourhood Policing Teams, operating Engagement Plans, which use a range of methods that are specific to urban and rural community needs. The plans ensure that community priorities, concerns and areas for improvement are identified and dealt with. This includes:

- Safer and Stronger Community Meetings.
- Development of Key Individual Networks.
- Streetsafe Campaigns
- Residents' forums.
- Neighbourhood and Farm Watch.
- Multicultural centre visits.
- Meet and greet at public places, for example 'Cop in a Shop.'
- Newsletters for each geographical area providing information on priorities, what has happened and publicising the next community engagement meeting or event. This is also available on the Constabulary website..

A recent development has been to introduce on line discussion forums.

9.3 The Constabulary has a marketing and communications strategy aimed at establishing clear channels of communication with all sections of the community. This includes alternatives to traditional communication methods to warn and inform and undertake surveys. Social media and proactive media coverage of events are used to provide accurate messages and re-assurance.

9.4 The Strategic Independent Advisory Group (IAG) meets regularly to discuss emerging issues of strategy and policy both nationally and locally.

9.5 The Constabulary meets its requirements under the Equality Act 2010 by setting equality objectives every four years and publishing equality information via its website every three months.

9.6 The Constabulary is an affiliate of the Cumbria Consultation Steering Group. This

includes sharing open consultations with partners.

9.7 The Constabulary surveys victims of crime and anti-social behaviour to ensure that the Victims' Code of Practice is complied with and to use the feedback to improve the experience of victims and the services provided. Service recovery is part of this process.

9.8 Local crime data is published at community level via the Constabulary's website and nationally via police.uk to increase the transparency of crime and performance data.

9.9 The Constabulary is subject to the Accounts and Audit (England) Regulations 2011 and will have to prepare a set of accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting and will be subject to audit. The Constabulary's first set of accounts will be published in June 2013 setting out the resources that have been utilised in delivering the performance achieved in the annual report. The statements include comprehensive income and expenditure statement and the Police Objective Analysis (POA), a methodology for reporting expenditure on policing to help readers better understand policing activities and their cost.

9.10 The Chief Constable complies with guidance provided by the Information Commissioner in respect of an information publication scheme. This ensures key information to ensure public accountability is available through the Constabulary's website. This includes information in respect of the Chief Officers, policies, income and expenditure, policies and their equality assessments.

AREAS FOR FURTHER DEVELOPMENT AND IMPROVEMENT

9.11 The Constabulary is developing a strategy to improve its internet site to enhance accessibility and relevance to the public and media. This includes expansion into mobile phone networks.

9.12 The Constabulary will provide an Annual Report, which will provide information to the public on police performance, how to contact the
police and raise awareness to increase re-assurance and accountability.

DEVELOPMENT AND IMPROVEMENT PLAN

Area of Governance	Ref	Action	Lead Officer	Implementation by
Core Principle 1: Focusing on the purpose of the Chief Constable, and on outcomes for the community, and creating and implementing a vision for the local area.	4.12	Review governance arrangements in the light of changes to the Police & Crime Plan and the Strategic Work Programme.	Deputy Chief Constable	31 March 2014
	4.13	Review all governance documents and amend for the implications of stage 2 transfers.	Deputy Chief Constable	31 March 2014
	4.14	Review and amend the funding agreement between the Commissioner and Constabulary to reflect financial implications of stage 2 transfers.	Deputy Chief Constable	31 December 2013
	4.15	Publish an Annual Report for the Constabulary.	Director of Corporate Improvement	31 August 2013
	4.16	Create and Develop implement an Individual Officer Performance Dashboard	Director of Corporate Improvement	In place. Further development in 2013-14 and 2014-15.
	4.17	Introduce Customer Journey Mapping	Director of Corporate Improvement	31 March 2015

Area of Governance	Ref	Action	Lead Officer	Implementation by
Core Principle 2: Leaders, officers and partners working together to achieve a common purpose with a clearly defined functions and roles.	5.13	Review all governance documents and develop the Constabulary's own documents where required.	Deputy Chief Constable	31 March 2014
Core Principle 3: Promoting values for the Chief Constable and demonstrating the values of good governance through upholding high standards of conduct and behaviour.	6.9	Audit Committee Review of effectiveness.	Chief Finance Officer / Audit Committee Chair	31 May 2014
	6.10	Joint action plan in relation to recommendations arising from the independent investigation into the conduct of Temporary Chief Constable Mr Hyde	PCC / Chief Constable	31 December 2013
Core Principle 4: Taking informed and transparent decisions which are subject to effective scrutiny and managing risks.	7.10	Review risk management strategy.	Director of Corporate Improvement	31 March 2014
	7.11	Review of Policies and Procedures.	Director of Corporate Improvement	31 March 2014

Area of Governance	Ref	Action	Lead Officer	Implementation by
Core Principle 5: Developing the capacity and capability of the Chief Constable and Officers and Staff of the Chief Constable.	8.9	Design and Implement a Core Skills and Leadership Programme.	Director of Corporate Support & Head of Learning & Development.	31 March 2015
Core Principle 6: Engaging with local people and other stakeholders to ensure robust public accountability.	9.11	Develop an Internet Strategy	Director of Corporate Improvement	31 March 2014
	9.12	Publish an Annual Report for the Constabulary.	Director of Corporate Improvement	31 August 2013

Joint Audit and Standards Committee
23 September 2013
Agenda Item No 8

Monitoring Key Audit Recommendations

Introduction

This report is designed to monitor the implementation of recommendations and actions arising from Audit and Inspection.

If fulfills the assurance responsibilities of the Audit and Standards Committee with regards to the implementation of control recommendations and best practice arising from Audit and Inspection work.

Report Summary

Open actions b/fwd from last report	**7**
New actions since last report	**11**
Total actions this report	**18**
Actions completed since last report	**11**
Open actions c/fwd to next report	**7**

Key to actions:

Completed Ongoing timescale exceeded not yet due

Key to Grade:

1. Major recommendation that indicates a fundamental control weakness that must be addressed

2. Recommendation to be addressed in order to establish a satisfactory level of internal control

3. Minor recommendation made to improve the system under review

Members have requested that this summary of recommendations report provides an update on actions where the recommendation was graded 1 or 2 only. Minor grade 3 recommendations are monitored by individual managers.

Recommendation	Grade/Person Responsible	Agreed / Intended Action / Progress Update	Target Date	☼
Action Plan in relation to recommendations made in PURE relating to 2008-09, 4 December 2009 (External Audit, Audit Commission)				
Workforce Planning R6 Adopt a more comprehensive workforce strategy to provide a longer term framework for workforce planning / development. The strategy should set out key objectives, challenges and principles, directly linked to strategic priorities and how these will be met.	2 Financial Services Manager	A workforce plan has been developed and agreed for the constabulary establishment. Update August 2012 – Update from Change Programme - work has been undertaken between HR and Finance to reconcile the establishment, which can they be used as a base line. Retirements and staff allocation have been mapped to the rank of Sgt for a reasonable period of time (it is unrealistic to map it out for more than a couple of years as people could be subject to change). The work force plan is heavily interdependent on the General Policing Review, and CID stage 1 reviews, and as these reviews are still in the research and options development stage final work around the workforce cannot be undertaken. Holding measures have been put in place in relation to promotions, with HR and finance working closely with the Senior Management Teams, to ensure the workforce plan can be delivered. March 13 – The workforce plan is now substantially in place covering all ranks of police officer and police staff. This document has been utilised as a basis for developing staffing options for inclusion in the 2013-14 budget and MTFF. Monthly meetings now take place between finance and HR to monitor actual and forecast staffing numbers against establishment. The results are communicated to the DCC and subsequently to the Chief Officer Group as a basis for decision making in relation to staffing. It is recognised that there are still minor anomalies in relation to the extraction of accurate staffing figures from the HR system which are actively being worked on and that the plan will inevitably need to be dynamic in the current environment of significant structural change. June -13 The workforce plan continues to be developed and has been actively used to develop a recruitment strategy for officers in 2013-14. Further work is on-going to ensure that information is fully robust and that it is integrated with the Origin HR system. September 2013 – The strategic workforce plan is now fully developed incorporating officers, staff, PCSO's and specials and forward projections of staff numbers. The report is updated on a monthly basis, discussed at strategic meetings and is used as a basis for decision making.	30 June 2013	☼

Main Financial Systems Manual adjustment journals should be initiated and input to Oracle by different staff.	2 Financial Services Manager	We will review this issue and agree a practical way forward with internal audit. This is not perceived as a high risk and any anomalies should be brought to light as part of the budget monitoring process. August 2012 Update – A list of journals will be produced and signed on a monthly basis. At this stage we are awaiting the go-live of the Qlikview reporting toll in order to extract the journal information in order to complete this check. March 13 – Significant non payroll journals (proposed as over £50k) will be extracted and signed off by a senior member of the finance team. This will operate from the start of the 2013-14 financial year. June 13 – A combination of resources and other priorities have not permitted the automatic system based process to sign off significant journals to be put in place at the start of the financial year. In the interim significant journals are being signed off retrospectively. Setting up the automatic process is scheduled for July. September 2013 – A procedure is now in operation which ensures that a summary report detailing all manual adjustment journals is countersigned by either the Financial Services Manager or Head of Financial Services on a monthly basis. Work is currently underway in the test financial system to develop a fully automated process.	30 April 2013	
Partnerships, November 2011 (Shared Internal Audit Service)				
A value for money exercise should be carried out for all joint-working arrangements. Those arrangements that do not demonstrate added value to the constabulary should be ceased.	2 Strategic Development	The work is completed for all but 2 of the major partnerships. The 2 outstanding partnership assessments are work in progress. March 2013 – the outstanding assessments are scheduled to be completed by end March 2013. June 2013 – One VFM exercise is still to be completed as future responsibilities in relation to this partnership are currently being assessed. September 2013 – Due to unplanned and significant resourcing issues, one VFM exercise is still to be completed. The resource issue was resolved at the end August and, subject to any	March 2013	

		recommendations from Office of PCC about the function concerned, the work has been rescheduled to start in October 2013.		
VFM and Efficiency Savings, November 2011 (Shared Internal Audit Service)				
The approach to delivering VFM should be reflected in an updated strategy document and this should be linked to the detail held within the VFM statement	2 Director of Corporate Improvement & Head of Financial Services	The present strategy runs until 2012 and will be refreshed for the forthcoming financial year. A large element of the strategy is the Change Programme work which is regularly reported to the Authority. VFM work is continuing in the form of delivering the Change Programme. March 13 – A revised VFM strategy which will incorporate the objectives within the Policing Plan , the Constabulary's Change Programme, the workforce plan, Police Objective Analysis and HMIC VFM profiles is being developed. This will be presented to the Constabulary's Chief Officer Group by the end of the current financial year. This will subsequently be communicated to the Police and Crime Commissioner. June 2013 – A revised VFM strategy has been produced and agreed by the DCC Senior Management Team in March. Subsequent communication to the Commissioner is still to take place. September 2013 – Following approval at DCC's Senior Management Team, the revised Value For Money Strategy will be presented to the Constabulary's Chief Officer Group in October 2013. This will subsequently be communicated to the Police and Crime Commissioner.	March 2013	
Creditors, February 2012 (Shared Internal Audit Service)				
Staff should be reminded of the Financial Regulations, to ensure that: • Only authorised staff, as per the budget delegation sheet, authorise orders; • Order are	2 Roger Marshall – Head of Financial Services	May 2012 update - The new oracle I-procurement module of the upgraded finance system was implemented on 01/04/12. September Update – new budget protocols were agreed by the Chief Officer Group and have been communicated to budget holders. Revised budget responsibilities and delegations are being formalised. March 13 – A formal list of budget-holders and their agreed delegations, including limits and areas of responsibility has been prepared and communicated to the Central Services Dept (CSD). The budgetary responsibilities have been built into the approval hierarchy in the financial system. It has also been amended to reflect revised Directorate structures. CSD staff have been reminded of the importance of ensuring that requisitions are attached to the correct expenditure category, which will ensure that systems orders are correctly approved and coded.	June 2013	

completed for all purchases; There is segregation of duties in the ordering and receiving process		The same budget authorisations are applied to non order expenditure, however it is aimed that as many orders as possible are placed through the system. An exercise to formally communicate the revised Financial Regulations and Rules to relevant staff will be undertaken once they have been agreed by the PCC and Constabulary. June 13 – The release of the budget for 2013-14 was delayed whilst funding arrangements were finalised between the PCC and the Constabulary. Budget delegations are in the process of being collated and will be incorporated into approval hierarchies in the Oracle system as soon as practicable. Financial Regulations and Rules are still in the process of development and will be communicated once this is complete. An update on progress will be provided to the next meeting and a revised target for this work of the end of September is proposed. September 2013 – Changes to budget delegations for 2013-14 are substantially reflected in the oracle electronic approvals hierarchy. Some technical difficulties have been encountered in combining the management of budgets by cost codes (departments/sections) and others by main code (subjective detail). A solution is currently being developed. Whilst the finance team have been heavily engaged in producing the annual statutory accounts only a limited amount of progress has been made in updating the financial rules & regulations. The intention is to re-vamp the rules and regulations and make these more relevant to users and more easily understood. Once work completed documents will be published on the financial services intranet site and a further communication strategy will be developed.		
Data Quality – Crime and Incident Recording, December 2012 (Shared Internal Audit Service)				
R1 Ongoing monitoring is required to assess the effectiveness of quality assurance arrangements and make reasonable adjustments to secure an acceptable level of data quality.	1 Force Crime Registrar	Following publication of this report and an internal audit report (Nov 12) a further retrospective audit of data will be instigated by the Force Crime Registrar in Feb/Mar 2013 to measure data quality compliance. This audit together with findings to date will inform and assist the on-going implementation of activities within the Constabulary Improvement Plan for this area of the business.	Feb / Mar 2013	☼

R2 Data quality risks should be managed according to the Constabulary's risk appetite.	1 Force Crime Registrar	The results of the above action will inform how data quality is managed by the Constabulary in the future. This may result in maintaining current audit levels or a return to 'real time' audit in an effort to manage data quality more effectively.	Feb / Mar 2013	
		June 13 - In relation to the 2 Data Quality audit recommendations above the following actions have been taken :- • A Crime Management Governance Board has been set up to oversee the approach to improving crime management processes. • A Crime Desk Review and Implementation team has been established. • The Crime Management Unit has been re-located into the Communications Centre to improve connectivity. • Live time audits have been re-introduced for priority crimes. • Introduction of a Performance Framework. • Regular updates to raise staff awareness. September 2013 Update: • Performance is improving however work is still in progress to sustain the necessary standards. • The Force Registrar and his team have had to suspend live time audits to undertake necessary national audits and returns. • Operational Commanders have in place a system of live time audits by inspectors and sergeants. • The Crime Desk Improvement Group are looking at other initiatives to improve and sustain performance.		
Main Accounting System, May 2013 (Shared Internal Audit Service)				
R2 Virements should only be processed following appropriate approval.	2 Financial Services Manager	Procedure to be introduced to ensure all budget adjustments and virements are authorised by the Principal FSO or Financial Services Manager. A list will be maintained to record all virements and associated approvals. September 2013 – All virements/budget adjustments are now approved in advance of input by the Financial Services Manager or the Principal FSO. As a result of the funding agreement	May 2013	

		between the PCC and CC, a further control step has been added to the process whereby the PCC CFO is asked to approve all changes to the funding amount (virements or budget adjustments) on a monthly basis, prior to the publication of management accounting information.		
Debtors & Income, May 2013 (Shared internal Audit Service)				
R1 Supporting documentation should be attached to the AR system wherever possible	2 Financial Services Manager	The need to attach supporting documentation was reiterated to the financial services team on 26/03/13. September 2013 - Supporting Documentation is being attached where applicable.	March 2013	
R2 Appropriate arrangements should be put in place to ensure that control account reconciliations are undertaken on a timely basis during staff absence and peak pressures.	2 Financial Services Manager	The demands on the financial service steam at the start of the 2012/13 financial year were extraordinary, following the upgrade of the financial system, which required workload to be prioritised based on risk. On an ongoing basis it is intended that the accounts receivable control account will be undertaken on a timely basis. September 2013 – Control account reconciliations are kept up to date on a monthly basis.	October 2012	
R3 Appropriate arrangements should be put in place to ensure that debt is followed up on a timely basis during staff absence and peak pressures.	2 Head of Central Services – Ann Dobinson	The Central Services Department was a newly created department on the 1 April 2012 and the demands faced by new staff into the department were huge. This combined with the implementation of two new systems, required workloads to be prioritised. A monthly debt collection routine has been undertaken since January 2013 and additional staff are being trained to provide resilience in this area. September 2013 – Debt collection work is now routinely undertaken.	January 2013	
R5 All income received should be receipted.	2 Head of Central Services – Ann Dobinson	Importance of receipting all monies and communication between the administration of seized cash and banking arrangements have been reiterated to staff 16.4.13. Seized cash procedures amended to include a date money receipted and banked. September 2013 – Procedures updated and communicated.	April 2013	

Oracle Financials Security, June 2013 (Shared Internal Audit Service)				
R2 The SYSADMIN account should not be used (or as a minimum, only used by one individual) and system Administrators should have delegated system administrator privilege on their individual accounts to prevent use of shared passwords and to provide user accountability on the system.	2 ICT Database Administrator (Richard Unwin)	System Administrators have agreed to use the System Administration responsibility attached to their user account instead of signing on as SYSADMIN. Some processes within Oracle require the SYSADMIN log on to be used. Access to this account must therefore be left active. To ensure adequate cover, this log-in must remain available to more than one person, however, access to the SYSADMIN log-in and password will remain tightly controlled. The feasibility of accessing SYSADMIN through switching over from the individual system administrator sign on will be investigated, which would provide an audit trail for SYSADMIN. If this is not possible any use of SYSADMIN log-in will be logged / documented to provide accountability. September 2013 – system administrators now have relevant responsibility attached to their individual users accounts.	July 2013	
R3 Audit trails (logs) should be subject to regular review with specific focus on user accounts that have system administrator privileges	2 Richard Unwin & Mark Carter	The approach to production and monitoring of system logs will be reviewed on a risk basis. A balance will be sought between benefits and the resources required (including systems resource). For low risk activities a reactive policy may be appropriate where the log is generated but only examined in the case of a problem arising. When deciding what information will be reviewed an emphasis will be placed on system administration activities and users. September 2013 – Discussions on which items should be reviewed and frequency of reviews are currently ongoing.	July 2013	
R4 Accounts with the system administrator privileges should be kept to a minimum. The list of users should be reviewed periodically and the accounts either disabled or the system	2 Mark Carter	All user accounts with system administrator are to be reviewed. Those no longer required will be disabled or amended as appropriate. The System Administration module of Oracle, and all responsibilities linked to that module will be added to the existing monthly review of Oracle Financials modules user access. September 2013 – Review completed. Seeded users and those used by external consultants are being disabled. The system administration module is now included in the monthly user access audit.	July 2013	

administrator privilege removed as necessary.				
R5 The DBA should only have access to one account with system administration privilege in order to fulfil DBA duties. No business functions should be assigned to this account. *Where testing is required a temporary account should be used with roles set up to replicate the necessary test conditions.*	2 Richard Unwin	The user account UNWINRJ has been disabled with effect 10/04/13. In future, changes to the responsibilities needed for the DBA to perform their duties will be assigned to their normal user account. Any testing of responsibilities, patches or fixes will be done either in a test environment or by an existing user.	April 2013	
R6 System roles should be adequately documented to include the levels of access they allow to the system.	2 Mark Carter	Documentation, including a description of the activities allowed by each responsibility to be produced. September 2013 – Documentation underway to include menu access, activities which can be carried out using the responsibility and the roles within the organisation who would be given access.	July 2013	
R7 Remote access by external system support suppliers should be closely monitored and logged.	2 Mark Carter	User accounts associated with suppliers of support services will be reviewed and disabled. A change in the way we manage support calls means there is no future need for these user accounts. Support calls are now managed via Microsoft Lync conversations. Access to the system will be available only during these conversations; only via a member of staff's user account and always while that member of staff is at their PC monitoring all activity by the external consultant. September 2013 – Responsibilities assigned to user accounts belonging to external consultants are being disabled.	July 2013	

JOINT POLICE & CRIME COMMISSIONER AND CUMBRIA CONSTABULARY AUDIT AND STANDARDS COMMITTEE	Paper No. **
Meeting date: 23 September 2013	
From: Audit Manager	

PUBLIC SECTOR INTERNAL AUDIT STANDARDS

1.0 EXECUTIVE SUMMARY

1.1 ***This report provides an overview of the requirements of the Public Sector Internal Audit Standards which became mandatory for all UK public sector internal auditors from 1st April 2013.***

1.2 ***Key points are:***

- ***A revised definition of internal auditing focusing on the role of internal audit in providing independent assurance over the systems of Governance, Risk Management and Internal Control.***
- ***A mandatory code of ethics which must be adopted by all internal auditors working in the UK public sector.***
- ***The preparation of an Audit Charter setting out the role and purpose of internal audit, as well as the nature of the head of internal audit's functional reporting relationship with the Audit and Standards committee and affirms internal audit's rights of access to all records, information, premises relevant to internal audit assignments.***
- ***The requirement for a quality assurance and improvement programme for internal audit.***
- ***The preparation of annual risk-based audit plans designed to allow an annual opinion to be given over the PCC and Chief Constable's arrangements for Governance, Risk Management and Internal Control.***

- ***The duty placed on the Head of Internal Audit to escalate to senior management and Audit and Governance Committee any instances where he / she considers that management have accepted a level of risk that may be unacceptable to the PCC or Chief Constable.***

1.3 ***A review of internal audit is currently being undertaken by the external auditors Grant Thornton to provide recommendations aimed at ensuring conformance with the Standards.***

2.0 POLICY POSITION, BUDGETARY AND EQUALITY IMPLICATIONS, AND LINKS TO COUNCIL PLAN

2.1 ***The Accounts and Audit Regulations 2011 require the PCC and Chief Constable to undertake an adequate and effective internal audit of their accounting records and of the system of internal control in accordance with the proper practices in relation to internal control. Proper practices as stated within the Regulations are now defined as the Public Sector Internal Audit Standards.***

3.0 RECOMMENDATION

3.1 ***Members are asked to note:***

- ***The requirements of the Public Sector Internal Audit Standards***

4.0 BACKGROUND

4.1 Until 1st April 2013, internal audit was required to comply with the CIPFA Code of Practice for Internal Audit in Local Government and an annual self-assessment was undertaken and the outcomes reported to Audit and Standards Committee.

4.2 The Public Sector Internal Audit Standards replace the CIPFA Code as the mandatory standards and the Head of Internal Audit is now required to report any instances of non-conformance with the Standards such that they impact the scope or operation of the internal audit activity.

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Group Audit Manager
30 August 2013

5.0 INTRODUCTION AND SCOPE

5.1 The Public Sector Internal Audit Standards became mandatory for all internal audit service providers within the public sector from 1st April 2013. The Standards replace the CIPFA Code of Practice for Internal Audit in Local Government (2006) as 'proper audit practices' as required by the Accounts and Audit Regulations 2011.

5.2 The primary role for Internal Audit in the public sector is the provision of assurance services. This role requires the chief audit executive (Group Audit Manager within the Shared Internal Audit service) to produce an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and internal control. Internal audit may also provide discretionary consulting activities at the request of the organisation with the aim of improving governance, risk management and internal control and contributing to the overall opinion. However, the provision of consulting activities is subject to there being no impact on core assurance work.

5.3 The PSIAS refer to the head of internal audit as the 'chief audit executive' and require the organisation to define the terms 'board' and 'senior management' for the purposes of internal audit activity. Within the Cumbria Shared Audit Service, the chief audit executive is the Group Audit Manager or the responsible Audit Manager who acts with delegated authority of the Group Audit Manager in relation to the client organisations within the shared audit service. The 'board' is generally the committee charged with responsibility for governance, risk management and internal control and will most frequently be the Audit and Assurance/ Governance committee. This will be defined within an audit charter approved and owned by each organisation within the Shared Audit Service.

6.0 DEFINITION OF INTERNAL AUDITING

6.1 The Standards introduce a slightly amended definition of internal auditing from that of the former CIPFA Code of Practice for Internal Audit. The definition is:

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

6.2 This definition further emphasises the role of internal audit in reviewing all systems of risk, governance and internal control, moving away from the traditional role of internal audit in primarily reviewing systems of internal *financial* control. The definition also focuses on the role of Internal Audit in assisting the organisation to achieve its objectives.

7.0 CODE OF ETHICS

7.1 The PSIAS contain a code of Ethics which is attached as an appendix to this paper. All internal auditors in UK public sector organisations must conform to this Code. The Code does not replace those of any professional body that auditors belong to or those of the employing organisation; internal auditors are required to comply with all relevant Codes of Ethics.

7.2 Internal auditors are also expected to have regard for the Committee for Standards of Public Life's *Seven Principles of Public Life*.

8.0 KEY REQUIREMENTS OF THE STANDARDS

8.1 Internal Audit Charter

8.1.1 The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter consistent with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*. The internal audit charter establishes internal audit's position within the organisation, including the nature of the chief audit executive's functional reporting relationship with the board, it authorises access to records, personal and physical properties relevant to the performance of audit engagements and it defines the scope of internal audit activities. Final approval of the charter rests with the board (Audit & Assurance / Governance Committee). The Charter is approved and owned by the organisation.

8.2 Independence and Objectivity

8.2.1 The internal audit activity must be independent and internal auditors must be objective in performing their work. This means that the chief audit executive must have direct and unrestricted access to senior management and the board (Audit & Assurance / Governance Committee). This can be achieved through a dual reporting relationship. The chief audit executive must confirm to the board, at least annually, the organisational independence of the internal audit activity.

8.2.2 Examples of functional reporting to the board include:

- approving the internal audit charter;
- approving the risk based audit plan;
- approving the internal audit budget and resource plan;
- receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters;
- approving decisions regarding the appointment and removal of the chief audit executive (for clients within the shared audit service this may mean approving the procurement of the internal audit service);

- making appropriate enquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.

8.3 Proficiency and Due Professional Care

8.3.1 Audit engagements must be carried out with proficiency and due professional care. The chief audit executive must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced. The Group Audit Manager and Audit Managers within the Shared Internal Audit Service are all professionally qualified.

8.3.2 Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills and other competencies needed to perform its responsibilities. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional qualifications.

8.4 Quality Assurance and Improvement programme

8.4.1 The chief audit executive must develop and maintain a quality assurance and development programme that covers all aspects of the internal audit activity. A quality assurance programme will enable an evaluation of the internal audit activity's conformance with the definition of internal auditing and the Standards. The quality assurance and improvement programme must include both internal and external assessments.

8.4.2 Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity; and
- Periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of the internal audit profession

8.4.3 External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive must discuss with the board:

- The form of external assessments;
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

8.4.4 The chief audit executive must communicate the results of the quality assurance and improvement programme to senior management and the board (Audit & Assurance / Governance Committee).

8.4.5 The chief audit executive may state that the internal audit activity conforms with the International Standards for the Professional Practice of Internal

Auditing only if the results of the quality assurance and improvement programme support this statement. Any instances of non-conformance which impact the overall scope or operation of the internal audit activity must be reported together with the impact of these to senior management and the board.

8.5 Performance Standards

8.5.1 The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organisation.

Planning

8.5.2 The chief audit executive is responsible for developing a risk-based plan to determine the priorities of the internal audit activity consistent with the organisation's goals. The audit plan must take into account the organisation's risk management framework including risk appetite levels set. In the absence of a risk management framework, the chief audit executive must use her own judgement of risks after consideration of input from senior management and the board (Audit Committee).

8.5.3 The audit plan must be based on a documented risk assessment undertaken at least annually. The input of senior management and the board must be considered in the process.

8.5.4 The risk based audit plan must explain how internal audit's resource levels have been assessed. The plan must link to a high level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisation's objectives and priorities.

8.5.5 Where the chief audit executive believes that the level of agreed resources will impact adversely on the provision of an annual audit opinion, the consequences must be brought to the attention of the board.

8.5.6 The internal audit activity's plans must be communicated to senior management and the board for review and approval.

8.5.7 The chief audit executive must include in the plan the approach to using other sources of assurance and any work required to place reliance upon these other sources.

Reporting to Senior Management and the Board

8.5.8 The chief audit executive must report periodically to senior management and the board on the internal audit's purpose, authority, responsibility and performance relative to the plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the

board. The frequency of such reporting to be agreed with senior management and the board.

External Service Provider and organisational responsibility for Internal Auditing

8.5.9 When an external service provider serves as the internal audit activity, the provider must make the organisation aware that the organisation has the responsibility for maintaining an effective internal audit activity. This is demonstrated through the quality assurance and improvement programme which assesses conformance with the Standards.

8.6 Nature of Work

8.6.1 The internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.

Governance

8.6.2 Internal audit must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organisation
- Ensuring effective organisational performance management and accountability
- Communicating risk and controls information to appropriate areas of the organisation
- Coordinating the activities of and communicating information among the board, external and internal auditors and management.

8.6.3 The internal audit activity must evaluate the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities.

8.6.4 The internal audit activity must assess whether the information technology governance of the organisation supports the organisation's strategies and objectives.

Risk Management

8.6.5 The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes. Determining whether the risk management processes are effective is a judgement resulting from the internal auditor's assessment that:

- Organisational objectives support and align with the organisation's mission;

- Significant risks are identified and assessed;
- Appropriate risk responses are selected that align risks with the organisation's risk appetite; and
- Relevant risk information is captured ad communicated in a timely manner across the organisation, enabling staff, management and the board to carry out their responsibilities.

8.6.6 The internal audit activity must evaluate the potential for occurrence of fraud and how the organisation manages fraud risk.

Internal Control

8.6.7 Internal audit must evaluate the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems regarding the:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

8.7 Engagement Planning

8.7.1 Where internal audit provides services for parties outside the organisation, internal auditors must establish a written understanding with them about objectives, scope, respective responsibilities and other expectations, including restrictions on distribution of results and access to engagement records.

8.8 Communication of Outcomes

8.8.1 Final communication of engagement results must contain internal audit's opinion and / or conclusions. The opinion must take account of the expectations of senior management, the board and other stakeholders and must be supported by sufficient, reliable, relevant and useful information.

8.8.2 The head of Internal Audit must also deliver an annual internal audit opinion and report that can be used by the organisation to inform its Annual Governance Statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. The annual report must incorporate:

- The opinion
- A summary of the work that supports the opinion; and

- A statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

8.9 **Monitoring progress**

8.9.1 The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

8.9.2 The chief audit executive must establish a follow up process and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

8.9.3 Where the chief audit executive concludes that management have accepted a level of risk that may be unacceptable to the organisation, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines the matter has not been resolved, the chief audit executive must communicate the matter to the board.

9.0 SUMMARY AND NEXT STEPS

9.1 A self-assessment is currently being undertaken to ensure that internal audit is compliant with the Standards. The outcome of the self-assessment will be reported to Audit and Assurance Committee together with a Service Development Plan incorporating any actions arising from the self-assessment.

JOINT POLICE & CRIME COMMISSIONER AND CUMBRIA CONSTABULARY AUDIT & STANDARDS COMMITTEE	Paper No.
Meeting Date: 23 SEPTEMBER 2013	**
From: AUDIT MANAGER	

INTERNAL AUDIT PROGRESS REPORT ON AUDIT PLAN 2013/14

1.0 EXECUTIVE SUMMARY

1.1 This report summarises internal audit work carried out for the Cumbria Office of the Police and Crime Commissioner and Cumbria Constabulary for the first five months. At the end of August 2013, 21% of the plan had been completed.

2013/14 PLAN DAYS	ACCREDITED DAYS	% PLAN ACHIEVED
166	**35**	**21**

1.2 The position compares favourably to the previous year when 11% of the plan had been completed by this point.

1.3 Planned audit days are weighted towards the second half of the year to accommodate work on the main financial systems. There is also time set aside to carry out emerging and reactive work as it arises.

2.0 RECOMMENDATION

2.1 The Audit and Standards Committee is recommended to note this report and the proposals to ensure delivery of the audit plan for 2013/14.

3.0 *SUMMARY OF WORK COMPLETED*

3.1 The following table summarises the total number of audit evaluations made during 2013/14.

	Total	%
Good	1	34
Satisfactory	1	33
Fair	1	33
Weak	-	-
Total to date	**3**	**100**

3.2 The summary below gives a brief outline of the audit assignments undertaken to date from the 2013/14 plan. Shaded items have been reported to this Committee previously.

Assignments	Main Points	Assessment	Current Status
Annual report 12/13	Presented to Audit and Standards Committee 24 June 2013.	N/A	Complete
Annual Governance Statements 12/13	Presented to Audit and Standards Committee 24 June 2013.	N/A	Complete
Data Quality – Serious Violent Crime recording	The Constabulary is aware of data quality issues and is addressing data quality risks highlighted. Home Office changes to police recorded crime classifications in April 2012 has caused some misinterpretation, particularly with regard to weapon usage. Whilst guidance material is available an element of subjective interpretation remains. Audit tests showed that a relatively high proportion of crimes had been classified incorrectly. In most cases the classification had been made correctly by Police Officers and then incorrectly reclassified by the Central Crime Management Unit. Internal Audit considers that the risk to data quality in this area needs to be reassessed and managed accordingly to ensure an acceptable level of data quality.	Fair	To Audit and Standards Committee 23/09/13

Assignments	Main Points	Assessment	Current Status
Territorial Policing Areas	The audit covered income, petty cash, property records and inventory at North, South and West area offices. Banking takes place regularly to ensure that insurance limits are not breached. There were two occasions identified where banked income had not been receipted. Petty cash expenditure was appropriate. It was highlighted that North area did not provide receipts and change promptly to ensure records are complete and that VAT had been reclaimed despite the receipt not being a valid VAT receipt. Items could not always be traced from the property database to store. South and West Areas did not have inventory records and North Area's was incomplete. A central review of inventories is taking place.	Satisfactory	To Audit and Standards Committee 23/09/13
Treasury Management	Controls over treasury management are well established and continue to operate well.	Good	To Audit and Standards Committee 23/09/13

Appleby Incident – review of policies	Internal Audit reviewed policies and procedures considered relevant to the Appleby Incident at the request of the Chief Executive. Given the limited scope we were not required to conclude on whether the policies and procedures were followed. Our work identified that not all of the policies were reviewed in line with their stipulated review date and that it was not always clear which body had approved the policy and when. The report will be considered as part of the Police and Crime Commissioner's review of the incident.	N/A	Report used by the Chief Executive in the review of the incident.

3.3 In addition to the above, a member of the Internal Audit team attended the Police Audit Group conference in July. This was a useful networking opportunity and provided an insight into current developments and emerging areas where internal audit involvement may be useful.

3.4 In August 2013 the Group Audit Manager and Audit Manager met with Senior Management at the Constabulary as part of an exercise to map the Audit Universe. This will be the basis of the 2014/15 audit planning.

4.0 *GRADE 1 RECOMMENDATIONS – PROGRESS ON AGREED ACTIONS*

4.1 Two grade 1 recommendations were made in the review of crime and incident recording data quality. Both recommendations were agreed by Management. The target date for implementation of both recommendations was February / March 2013. Internal audit will follow up the implementation of the agreed action plan, later in the year.

5.0 *WORK PLANNED FOR NEXT PERIOD*

5.1 Work is scheduled as follows:

Assignment	Provisional date	Audit contact	Current Status
Seized / held property handling and claims.	To be agreed		
Integrity (review of the arrangements around use of corporate credit cards, gifts and hospitalities, contracting and secondary employment in the Constabulary and OPCC).	To be agreed		

5.2 The remaining internal audit work will be scheduled with the OPCC / Constabulary and a timetable for the remainder of the work will be presented to the next Audit and Standards Committee.

Emma Toyne
Audit Manager
6 September 2013

Agenda Item 11i

Serving the People of Cumbria

SHARED INTERNAL AUDIT SERVICE

INTERNAL AUDIT REPORT

A REPORT FOR
THE CUMBRIA OFFICE
OF
THE POLICE & CRIME COMMISSIONER

A REPORT ON

Data Quality: Serious Violent Crime Recording

Draft Report Issued: 3rd July 2013
Final Report Issued: 22nd July 2013

1.0 INTRODUCTION

1.1 In June 2013 Internal Audit undertook a review of serious violent crime data at the request of the Chief Finance Officer / Deputy Chief Executive of the Cumbria Office of the Police and Crime Commissioner.

1.2 The review was requested due to concerns about a significant rise in serious violent crime reported by the Constabulary from 2011/12 to 2012/13.

1.3 Serious violent crime is included as a headline measure in the Policing Plan 2012/15 with an aspiration to maintain 2011/12 performance. The Constabulary's End of Year Performance Report for 2012/13 shows this headline measure in exception. The report shows a 60% increase in recorded serious violent crime offences from 2011/12 to 2012/13.

1.4 Serious violent crimes are listed as follows:

- Homicide, infanticide and child destruction.
- Manslaughter.
- Attempted murder.
- Assault with intent to cause serious harm.
- Causing death by dangerous driving.
- Causing death by careless driving when under influence of drink / drugs.
- Causing death by careless or inconsiderate driving.
- Causing death by aggravated vehicle taking.

1.5 The contacts for this review were:-

- Peter Berry – Force Crime Registrar
- Nicola Broomfield – Partnerships & Strategy Manager (Cumbria Office of the Police & Crime Commissioner)

2.0 SCOPE

2.1 The scope of the audit was as follows:

- Establish what changes were introduced to the classification of violent crime following the Home Office reduction to the number of crime categories used for reporting recorded crime in April 2012.
- Establish what guidance (training) material has been prepared in response to the changes and who it has been issued to. Ensure the local interpretation of the changes correctly reflects national guidance.
- Review recorded crime figures (violent crime) during 2012/13, looking at trends and considering the impact of the classification changes.
- Test a sample of violent crimes recorded in the system to ascertain whether they have been correctly classified and meet the criteria / definitions as per national guidance. Ensure coverage over the year 2012/13 (pre and post internal review) and across all Territorial Policing Areas. Ascertain what internal checking of the

data is carried out and what findings have been reported (including subsequent actions).

- Conclude on the overall robustness and accuracy of violent crime data.

3.0 SUMMARY

3.1 EVALUATION

3.1.1 The evaluation of controls is based on testing carried out at the time of the review. Internal Audit assesses the controls operating in each area under review as 'good', 'satisfactory', 'fair' or 'weak'. This assessment is based on the number and grading of recommendations made.

3.1.2 The overall evaluation for the controls operated in this area is **fair**.

3.2 CONCLUSION

3.2.1 The Constabulary is already aware of the data quality issues highlighted by the Force Crime Registrar's audits of serious violent crime and crime and incident recording during 2012/13 and Internal Audit data quality reviews. Activities have been ongoing to address the data quality risks highlighted and a further review of crime and incident recording is scheduled for July 2013. Key recommendations arising from Audit and Inspection work are monitored on an ongoing basis with quarterly updates to the Joint Audit and Standards Committee.

3.2.2 Home Office changes to police recorded crime classifications in April 2012 have moved the focus of assault classification to evidence of intent rather than the actual injury inflicted. This has caused some misinterpretation, particularly with regard to weapon usage. Home Office guidance material is available, with operational examples, but an element of subjective interpretation remains.

3.2.3 Audit tests showed that a relatively high proportion of crimes had been classified incorrectly as 'assaults with intent to cause serious harm' and therefore classified as serious violent crimes. They should have been classified as 'assaults with injury (or no injury)' and therefore excluded from the serious violent crime category. In most cases these assaults had been classified correctly by Police Officers and then incorrectly re-classified by the Central Crime Management Unit. Misinterpretation of Home Office guidance regarding weapon usage and intent appears to be the main reason for non-compliance.

3.2.4 The results of this internal audit review and the Force Crime Registrar's review of serious violent crime indicate that there are potentially more incorrectly classified serious violent crimes during the period April 2012 to date. Numbers of reported crimes in the serious violent crime category have been over stated through inappropriate quality classifying practices. We consider that the risk to data quality in this area needs to be re-assessed and managed accordingly to ensure an acceptable level of data quality.

3.1 RECOMMENDATIONS

3.3.1 The recommendations made in this report are graded in accordance with their perceived importance. The grading falls into the following categories:

Grade 1: Major recommendation that indicates a fundamental control weakness that must be addressed.
Grade 2: Recommendation which should be addressed in order to establish a satisfactory level of internal control.
Grade 3: Minor recommendation made to improve the system under review.

3.3.2 Recommendations are included to this report as Appendix A – Summary of Recommendations and Action Plan (for the attention of Cumbria Constabulary).

4 DETAILED FINDINGS & RECOMMENDATIONS

4.1 Crime Classification Changes

4.1.1 In April 2012 the Home Office introduced a number of changes to police recorded crime classifications. It was an attempt to rationalise the number of classifications used from 148 down to 126 by aggregating a number of sub categories. Consequently the changes don't impact upon the overall number of crimes recorded, rather the numbers within sub categories.

4.1.2 Changes were made to serious violent crime classifications relating to assault. The previous classification of 'wounding or carrying out an act endangering life (inflicting GBH with intent)' and its various sub categories was re-classified into two distinct categories. Assault with intent to cause serious harm and assault with injury (ABH & GBH without intent).

4.1.3 The Central Crime Management Unit (CCMU) is aware of the changes to police recorded crime classifications and is in possession of updated Home Office Counting Rules For Recorded Crime. This includes a useful flowchart (updated July 2012) to guide the user in determining the crime classification of individual assaults. The chart includes examples of circumstances that may indicate intent to cause serious harm. The Central Crime Management Unit (CCMU) is responsible for supporting and auditing the crime management and recording process across the force. Officers in this unit have detailed knowledge of Home Office guidance on crime and incident recording. Ongoing advice is offered to officers during operational activity regarding the crime recording process. This helps to ensure that crime and incident data is recorded accurately, consistently, completely and in accordance with Home Office requirements.

4.2 Crime Data Quality

4.2.1 There are a number of controls in place to ensure that high quality crime and incident data enters STORM (System for Tasking & Operational Resource Management) and SLEUTH (crime recording system shared with Lancashire Police). Newly recruited Police Officers receive a full days training on national crime recording as part of their initial training programme. This is followed up with a more in-depth course a year later. The Central Crime Management Unit (CCMU) provides this training which is designed to improve data quality by reducing the risk of incident and crime recording errors and interpretation issues. Detailed handouts are provided to delegates in areas such as the National Standards for Incident Recording, Sanction Detection and National Crime Recording Standards. Ultimately all officers have a responsibility for data quality and the training helps to reinforce these data quality expectations and responsibilities. It is understood that training material has been amended where necessary to reflect the Home Office crime classification changes.

4.2.2 The STORM and Sleuth systems also have certain built in controls to reduce the scope for human error, missing data and inaccurate data. These controls include mandatory fields, drop down lists and access security levels. Crime classifications are selected from drop down lists of clear, current options.

4.2.3 Crime data published on the force intranet also includes a full list of crime classifications and a link to the Home Office Counting Rules for further details about crime classifications and counting rules. This additional material is readily available to Police Officers for reference to provide further clarity in respect of crime recording.

4.2.4 The Central Crime Management Unit has sight of all initial crime details and is responsible for prioritising and allocating reported crimes for investigation. The Unit is therefore able to conduct an initial data quality review against Home Office standards and identify any crime recording issues at an early stage. This review process can highlight crimes that require re-classification, particularly in response to Home Office recorded crime classification changes. Three officers within the Central Crime Management Unit have authority to perform crime re-classifications. Crime re-classifications are fully documented within the system for the attention of individual police officers. The documented explanations for each re-classification contribute to police officers' knowledge and understanding of crime recording, thus raising data quality standards.

4.3 Crime Figures

4.3.1 The Information Management Unit (within Strategic Development) extracts crime data from SLEUTH on a monthly basis for reporting purposes using a series of established queries. The data automatically populates a performance crime dashboard on the force intranet and a Home Office reporting template, CRIMSEC 3. Formulae are established within the dashboard to calculate performance measures in accordance with current Home Office Counting Rules for Recorded Crime.

4.3.2 The crime statistics dashboard presents crime data by category and displays the number of recorded crimes in the selected period, the number of detections and the rate of detection. The dashboard shows 91 serious violent crimes recorded in

2011/12, rising to 146 in 2012/13, an increase of 60%. The data is broken down as follows:-

Table 1 – Number of Crimes Recorded Each Year

Crime	2011/12	2012/13
Homicides	1	4
Other Serious Violent Crime	8	8
Assault – Cause Serious Harm	82	134
Total	**91**	**146**

4.3.3 Constabulary performance reports acknowledge that this crime category has been affected by the Home Office changes to crime classifications implemented in April 2012. The explanation provided is that more crimes are being classified as serious now that 'intent' is the determining factor in seriousness, rather than the resulting injury. Weapon use is viewed as an indication of intent to cause serious harm. The reports also stress that Cumbria has such low figures in this category that any small increase in offences can make the resulting percentage change appear very high.

4.3.4 During 2012/13 the Constabulary sought to identify possible reasons for the increase in the number of serious violent crime offences. The research identified that both drugs and alcohol were common denominators. Action was taken in response to these findings. Additional resources were allocated to addressing the 'tide of drugs entering the county' and various educational initiatives were run with partners in respect of alcohol such as the 'Every Action Has Consequences' campaign.

4.3.5 The Constabulary also reports that all serious violent crime offences are discussed and monitored through Tasking & Co-ordinating Group Meetings, Daily Management Meetings and Territorial Policing Area Management Team Meetings.

4.4 Audit Testing

4.4.1 The Central Crime Management Unit is also responsible for auditing the accuracy of crime and incident data. The Home Office has published a Data Quality Audit Manual to support and guide this process. The Force Crime Registrar performs a self audit of crime and incident recording on a periodic basis utilising this guidance material. Whilst retrospective in focus any issues arising from the audits are reported to senior officers for action. They are followed up by the Crime Management Unit through an established monitoring routine to ensure they are fully addressed and this helps to ensure data quality standards are maintained.

4.4.2 In January 2013 a Summary Performance Report highlighted an 81% increase in recorded serious violent crimes, from 91 crimes in 2011/12 to 165 crimes to date in 2012/13. The significant rise in recorded serious violent crime offences in 2012/13 prompted the Force Crime Registrar to perform an unscheduled audit of this area towards the end of the financial year. A two month period was reviewed commencing 1st December 2012. Issues were found and around 25 serious violent crimes were re-classified and dropped from the category as part of the review thus reducing the reported increase to 60%. The Crime Registrar addressed the identified training issue with the Crime Management Unit, providing feedback on the review findings, re-iterating the classification system and requesting greater care with crime

classification. The Chief Officer Group was verbally updated with review findings and actions taken and a follow up review has been scheduled for the end of July 2013.

4.4.3 The internal audit review sample tested serious violent crimes recorded throughout 2012/13 but excluded the two month period that was covered by the Force Crime Registrar's review. The sample was selected to cover the period before and after the internal review and to give a good cross section of Territorial Policing Areas (TPA). In total 22 recorded serious violent crimes were selected for testing.

4.4.4 The STORM log and SLEUTH record in respect of each crime in the audit sample was examined to ascertain whether the crime had been correctly classified as a serious violent crime, in accordance with Home Office criteria / definitions.

4.4.5 Audit tests showed that 6 of the 22 crimes reviewed (27%) had been classified incorrectly as assaults with intent to cause serious harm. They should have been classified as assaults with injury (or no injury) and therefore excluded from the serious violent crime category. An equal number of incorrect classifications were found in each Territorial Policing Area.

4.4.6 Five of the six crimes identified as incorrectly classified were initially classified as assaults without intent to inflict grievous bodily harm. However the Central Crime Management Unit re-classified these crimes to assaults with intent to cause serious harm as part of their established review process. The re-classifications were made because of the use of weapons. Close examination by internal audit showed that the circumstances surrounding each crime did not suggest any intent to commit GBH and so the original classifications by Police Officers should have been upheld.

4.4.7 The sixth incorrectly classified crime in the sample was classified incorrectly in the first instance and agreed by the Central Crime Management Unit during their review process. The crime was classified as assault with intent to cause serious harm when in fact there was no evidence of intent.

4.4.8 Misinterpretation of Home Office guidance regarding weapon usage appears to be the main reason for non-compliance.

4.4.9 The standard Home Office scoring system for data quality audits is as follows:-

POOR	FAIR	GOOD	EXCELLENT
79.9% and below of case files comply	between 80% & 89.9% of case files comply	between 90% & 94.9% of case files comply	95% and above of case files comply

4.4.10 In total crime classification queries were raised in 27% of cases reviewed. Under the above scoring system this result would generate a judgement of **poor** as it equates to 73% compliance. Four of the classification errors occurred before the internal review and two occurred after the internal review. The error rate dropped from 36% to 18% which indicates some improvement in the quality of crime classification date following the internal Force Crime Registrar's review and subsequent actions. However the rate of non compliance still does not generate more than a 'fair' judgement.

4.4.11 The results of this internal audit review and the Force Crime Registrar's audit in June 2012 show that the increase in recorded serious violent crimes from 2011/12 to 2012/13 may be due to incorrect classification rather than a significant rise in serious crime. Both reviews highlight the incorrect re-classification of 'assaults with injury' to 'assaults with intent to cause serious harm' by the Central Crime Management Unit as part of their scrutiny role. This commonly takes place where a weapon has been involved and this has been wrongly interpreted as indicating 'intent to cause serious harm'. More time needs to elapse and ongoing supervision / monitoring before the impact of the Force Crime Registrar's actions following his review become fully clear. There is an expectation that the quality of crime classification data will show a marked improvement. Crime classification will be re-visited in July 2013 as part of a routine, scheduled Central Crime Management Unit review of crime and incident recording.

4.4.12 The incorrectly classified crimes highlighted by the Force Crime Registrar's review were re-classified and thus removed from the serious crime category reducing reported crimes in this area. The results of this internal audit review and the Force Crime Registrar's review indicate that there are potentially more incorrectly classified serious violent crimes during the period April 2012 to date. Numbers of reported crimes in the serious violent crime category have been over stated through inappropriate classifying practices. This could dilute the seriousness of genuine serious violent crimes in this category and produces inaccurate management information. Inaccurate and misleading data can lead to flawed decision making and ultimately reputational damage. There is a need for the risk to data quality in this area to be re-assessed and managed accordingly, to ensure an acceptable level of data quality.

4.4.13 Accurate, reliable and robust management information is fundamental to decision making at a local and national level. For instance the force needs an accurate picture of the extent, type and location of crime in areas to make plans to best achieve outcomes for victims and their communities. Consideration needs to be given to determining the cost / benefits of reviewing all serious violent crimes during this period and re-classifying crimes to less serious codes where necessary.

RECOMMENDATIONS		
Ref	**Recommendation**	**Grade**
R1	**There should be close monitoring and supervision of Central Crime Management Unit crime re-classifications in respect of serious violent crime.**	**1**
R2	**The risk to serious violent crime data quality should be re-assessed and managed accordingly to ensure acceptable data quality standards.**	**2**
R3	**Consideration needs to be given to determining the cost / benefits of reviewing all serious violent crimes during this period and re-classifying crimes to less serious codes where necessary.**	**1**

CUMBRIA CONSTABULARY
CRIME & INCIDENT RECORDING

SUMMARY OF RECOMMENDATIONS & ACTION PLAN (J310001)
(FOR THE ATTENTION OF CUMBRIA CONSTABULARY)

REPORT REF	RECOMMENDATION	GRADE	PERSON RESPONSIBLE (to be completed by client)	AGREED / INTENDED ACTION (to be completed by client)	IMPLEMENTATION DATE (to be completed by client)
R1	There should be close monitoring and supervision of Central Crime Management Unit crime re-classifications in respect of serious violent crime.	1	**Force Crime Registrar**	**As documented within the report the Force Crime Registrar will continue to audit and supervise serious violent crime, both through monitoring of the category by exception and through specific audit.**	**This is an on-going function which will be initially measured against the Constabulary NCRS audit August 2013**
R2	The risk to serious violent crime data quality should be re-assessed and managed accordingly to ensure acceptable data quality standards.	2	**Force Crime Registrar**	**As at present, this category will continue to be assessed as part of the Constabulary audit of 'Violence against the person' crimes.**	**On-going crime management role**
R3	Consideration needs to be given to determining the cost / benefits of reviewing all serious violent crimes during this period and re-classifying crimes to less serious codes where necessary.	1	**Force Crime Registrar**	**This recommendation is not considered feasible in light of the resource requirement and subsequent financial cost required to both identify and quality assure data across this period.**	**Recommendation not agreed.**

ACTION PLAN COMPLETED BY:	Peter Berry Force Crime Registrar	DATE:	17.07.13

ACTION PLAN APPROVED BY	Iain Goulding Detective Chief Superintendent	DATE:	17.07.13

Agenda Item 11(ii)

Serving the People of Cumbria

SHARED INTERNAL AUDIT SERVICE

INTERNAL AUDIT REPORT

A REPORT FOR:
THE CUMBRIA OFFICE OF THE POLICE AND CRIME COMMISSIONER

ON:
TERRITORIAL POLICING AREAS

Draft Report Issued: **July 2013**
Final Report Issued: **September 2013**

1.0 INTRODUCTION

1.1 Internal Audit undertook an audit review of financial management systems at the West (Workington), North (Carlisle) and South (Kendal) Territorial Policing Areas (TPA's) during July 2013.

1.2 Areas of administrative responsibility at the Territorial Policing Areas changed in 2012/13 with some areas being centralised. This review considers the functions remaining in the Territorial Policing Area offices.

1.3 Administrative and 'front desk' staff at each of the three TPA's provided information during these reviews.

2.0 AUDIT SCOPE

2.1 The following table indicates the associated risks and sample of information reviewed by Internal Audit for each individual area reviewed:

KEY CONTROL AREA	KEY POTENTIAL RISKS
Income Collection & Banking	• Income goes missing prior to payment to bank. • Inaccurate income records. • Uninsured income stolen / destroyed.
Petty Cash	• Monies stolen or misplaced from imprest / sub-floats. • Inappropriate expenditure.
Found Property	• Property handed in not recorded. • Property sold privately or misappropriated for personal use.
Inventory	• No record of items in case of theft / destruction.

3.0 OVERALL EVALUATION, CONCLUSION & RECOMMENDATIONS

3.1 EVALUATION

3.1.1 **The evaluation of controls is based on testing carried out at the time of the audit, usually based on sampling. Internal Audit assesses the controls operating in each audited area as 'good', 'satisfactory', 'fair' or 'weak'. This assessment is based on the number and grading of recommendations made.**

3.1.2 **Table A: Evaluations of controls following testing carried out during this audit review:**

AREA REVIEWED	EVALUATION	RECOMMENDATIONS GRADE			REPORT REF
		1	2	3	
Income Collection & Banking	Satisfactory	-	1	-	5.1
Petty Cash Administration	Satisfactory	-	1	3	5.2
Found Property	Fair	-	1	-	5.3
Inventory	N/A	-	-	-	5.4
Overall Evaluation	**Satisfactory**	**-**	**3**	**3**	

3.2 CONCLUSIONS

3.2.1 Banking is undertaken regularly to ensure insurance limits are not breached. A couple of instances of income not being receipted were noted.

3.2.2 Petty cash expenditure appeared appropriate but staff at the North TPA should be reminded of the need to provide receipts and any change promptly so records are complete and expenditure fully accounted for. VAT should only be reclaimed where appropriate receipts are held.

3.2.3 Items could not always be agreed from 'live' found property records to store. It should be ensured that all staff involved with found property update the database with action taken for that item.

3.2.4 There are currently no inventory records at either the West or South TPA's and the North equipment list appeared incomplete. A central review of inventories is taking place and formal guidance will be issued to area offices on preparing inventory records once the review is complete.

3.3 RECOMMENDATIONS

3.3.1 Six recommendations are made in this report.

4.0 FOLLOW UP TO THE PREVIOUS AUDIT REVIEW

4.1 The previous audit reviews on financial management were carried out in 2011, resulting in control evaluations of good for all three areas with one recommendation for the North and six recommendations for the South.

4.2 The previous recommendations made were followed up as part of these reviews.

RECOMMENDATION	GRADE	AUDITEE RESPONSE TO ORIGINAL ACTION PLAN	ACTIONS IDENTIFIED THIS AUDIT
North TPA: Serial numbers should be recorded in the inventory record where expected.	3	To ensure the inventory records serial numbers where applicable	Serial numbers were seen on equipment list provided but list requires updating.
South TPA: All income received should be receipted and banked.	2	Admin staff will be reminded of the importance of accurate recording, receipting, reconciliation and banking of income. Periodic checks of income held in safes will be instituted. Additional training will be offered to staff where appropriate.	All income had been receipted, though income sent from Windermere station is not.
South TPA: Orders should be authorised in accordance with the BCU's Scheme of Delegation.	3	Staff will be reminded of the need to comply with the BCU's Scheme of Delegation when authorising orders	N/A – ordering is now done via an i-procurement system which has in built controls to ensure appropriate authorisation.

RECOMMENDATION	GRADE	AUDITEE RESPONSE TO ORIGINAL ACTION PLAN	ACTIONS IDENTIFIED THIS AUDIT
South TPA: Estimated prices should be included on copy orders.	3	Admin staff will be reminded of the importance of recording an estimate of value on all orders to allow accurate calculation of commitments.	N/A – ordering is now done via an i-procurement system which requires prices on orders.
South TPA: The petty cash error should be corrected.	3	The petty cash error has been corrected.	Changes have since been made to petty cash meaning this item has been dealt with.
South TPA: Cash in found property should be receipted and banked.	3	The Admin Manager has contacted all staff who handle found property to remind them of the need to record, receipt and bank found cash in accordance with the financial rules. Found property will be checked periodically to ensure that all income has been banked.	50p was found in a wallet during testing (this entry into found property was not made by front desk staff).
South TPA: The inventory record should be brought up to date.	3	The inventory record will be brought up to date, now that work to upgrade the Kendal Custody Unit has been completed.	No. There is currently no inventory record at South TPA.

5.0 DETAILED FINDINGS & RECOMMENDATIONS

5.1 Income Collection & Banking

West Area

5.1.1 The system for receipting, banking and posting income to the accounts at West Area HQ was reviewed and found to be operating well. All income is receipted and banked promptly so that insurance limits on cash holdings are not exceeded and accounts information is up-to-date.

5.1.2 A sample of receipts was traced to the bank paying in book and for each banking the receipt book was ruled off, totalled and referenced to the bank paying in slip number.

South Area

5.1.3 South Area HQ's system for receipting, banking and posting income to the accounts was reviewed and found to be operating well. All income is receipted promptly and banked so that insurance limits on cash holdings are not exceeded and accounts information is up-to-date.

5.1.4 South Area HQ receives income from Windermere station to bank. When received the slips stating the amount sent to South Area HQ are signed as evidence of receipt but this income is not receipted into the South Area receipt book. The receipt book is not ruled off, totalled and cross referenced to the bank paying in slip at each banking (some receipts contain comments such as "returned to loser" in the case of found cash claimed before banking).

North Area

5.1.5 At North Area HQ receipts are individually marked with 'PTB' and the date and initials of the banker (though not the bank slip number) rather than being ruled off, totalled and referenced to the bank paying in slip number.

5.1.6 It was noted that not all receipts result in money being banked. For example some receipts were marked with comments such as 'contaminated – sent to HQ' and the date recorded.

5.1.7 Some receipts were also included in banking at a later date than the receipts around them or related to money yet to be banked. These instances relate to seized cash which is not banked until a form 51 has been received (in case it needs to be sent away for fingerprinting or analysis etc). It was stated that seized cash is recorded in a seized cash database and that it should not be receipted until it is banked but that front office staff often receipt it on receiving it. If seized cash was recorded on the database when received but not receipted until it was to be banked then the receipt book could be more easily cross referenced to the bank paying in slips.

5.1.8 We were informed that the process for seized cash was being looked into centrally.

5.1.9 From the data reviewed it was noted that on two occasions income banked had not been receipted (totalling £870). It was stated that this was likely down to human error.

RECOMMENDATIONS		
Ref	**Recommendation & Grade**	**Risks if not actioned**
R1	All income received should be receipted (Grade 2).	• Income is unaccounted for / lost.

5.2 Petty Cash Administration

West Area

5.2.1 West TPA has a petty cash imprest of £500, which includes a sub-float of £50 held in custody.

5.2.2 The account is regularly reconciled and records were found to be complete and well maintained. The main amount of £450 was reconciled at the time of the audit but the custody sub-float of £50 was found to be £4.75 down. This was referred to the custody Sergeant for review by the administrative assistant.

South Area

5.2.3 South TPA has a petty cash imprest of £250, which includes a sub-float of £50 held in custody.

5.2.4 The account is regularly reconciled and records were found to be complete and well maintained (petty cash vouchers and receipts are sent to HQ for reimbursement and so could not be reviewed during the audit visit). The main amount of £200 was reconciled during the audit. The custody petty cash was not reviewed.

North Area

5.2.5 North TPA has a petty cash imprest of £500, which includes a sub-float of £50 held in custody.

5.2.6 The account is reconciled and reimbursed on an approximately two to three monthly basis. It was noted that receipts and actual spend amounts were not recorded on a few petty cash vouchers. These had been included for reimbursement at the amount given out to the individual. In cases where change is subsequently returned this is paid into the bank.

5.2.7 The imprest of £500 was reconciled at the time of the audit (though it was noted that £11.11 was being held within an envelope in the petty cash tin and when queried it was stated that this was not included in the balance of the imprest but related to previous instances where the petty cash was found to be over its imprest).

5.2.8 It was noted that VAT was being manually calculated and reclaimed for vatable items where the VAT amount was not shown separately on the receipt (and in one case where the receipt stated this is not a VAT receipt). HMRC has guidelines on what constitutes a 'VAT invoice' and thus what is required in order for VAT to be reclaimed.

RECOMMENDATIONS		
Ref	**Recommendation & Grade**	**Risks if not actioned**
R2	The discrepancy in the Workington custody float should be identified and corrected (Grade 3).	• Petty cash not correctly accounted for.
R3	The £11.11 extra in the Carlisle petty cash should be paid into the bank (Grade 3).	• Cash held but not accounted for.
R4	Employees should be reminded to return receipts and change from petty cash promptly and items should not be included for reimbursement until actual spend is known and receipts are received (Grade 3).	• Petty cash not correctly accounted for.
R5	VAT should only be reclaimed where appropriate receipts are retained (Grade 2).	• Incorrect claiming of VAT.

5.3 Found Property

5.3.1 As of April 2012 a database was introduced for use by the entire force to record found property rather than the manual triplicate books that were previously used. An on screen form is completed for each item (including certain mandatory fields) and when saved this generates the unique ID number for that item of property.

5.3.2 The found property database was reviewed for each area and a sample of items held in the store was traced to the records. A sample of items recorded on the database was also traced to the store.

5.3.3 At West Area two items from the database record could not be located in the store. It was stated that as they were both over 28 days old it is probable they had been reviewed and dealt with appropriately (disposed of, sent to auction, sent to HQ etc.). There is a need to ensure that the database is updated promptly and accurately to reflect whether items have been disposed of or whether they should still be in store and are in fact missing.

5.3.4 At South Area two items from the database record could not be located in the store. These items were not over 28 days old and so should not have been disposed of. We were subsequently informed that a PC had removed one of the items and that it had now been returned to store.

5.3.5 One item at North Area could not be traced from the database to the store. Again the item was recent and so should not have been disposed of, yet the record showed it as in store. One item traced from the store was found to have second item recorded with it in the database. This was not in store. From the database record it is possible that the second item may still be at the station that it was originally handed in to. If this is the case, all items with the same ID number should be kept together.

5.3.6 It should be ensured that all staff dealing with found property update the database promptly when the status of an item changes.

5.3.7 At both West and South Areas the cupboards where the small items of found property are held are not locked and do not have restricted access. We were informed that this is because access is required when front office staff are not at work either to return items to their owners or to place found property in the store. In North Area, access to the found property store is by key fob and it was stated that this is restricted to five members of staff.

5.3.8 Each area has a different process in respect of cash held in items of found property. All areas reported that the cash should be recorded on the found property database.

5.3.9 West Area leave the cash in the item in the store cupboard overnight and place it in the safe for the administrative assistant to receipt the following day during normal office hours.

5.3.10 South Area receipt the income immediately, remove it from the item, and store it in the safe within their office before the administrative assistant collects it when banking. Despite this, a small amount of change was found in a wallet during testing – this item had not been entered into the database by a front desk member of staff and it was stated that if it had they would have receipted it and placed it in the safe. Safe access is restricted to front desk staff and the administrative assistant.

5.3.11 North Area receipt the cash immediately if there is a large amount (approx. £100 or more), otherwise the item is marked with its ID number and placed in the safe within the office for a couple of weeks before being receipted and banked.

RECOMMENDATIONS		
Ref	**Recommendation & Grade**	**Risks if not actioned**
R6	All staff involved with found property should be reminded of the process to be followed and the importance of maintaining the found property database accurately (Grade 2).	• It cannot be determined if items of property are misplaced / stolen. • Inaccurate database records.

5.4 Inventory

5.4.1 The West and South TPA's currently have no inventory record.

5.4.2 An equipment list was provided at North TPA but this only contained 24 items (printers, scanners and MFP's) and thus clearly not all desirable and portable equipment that is currently held.

5.4.3 It was stated that there is currently a central review of inventories being undertaken and that area staff have not yet been asked to collate inventory records. Once the review is complete, guidance will be issued to staff and records prepared. It is anticipated that this review will be completed by the end of October 2013, and with regard to this no recommendation or evaluation has been made in this report.

CUMBRIA CONSTABULARY
TERRITORIAL POLICING AREAS

SUMMARY OF RECOMMENDATIONS & ACTION PLAN

REPORT REFERENCE	RECOMMENDATION	GRADE	PERSON RESPONSIBLE (to be completed by client)	AGREED / INTENDED ACTION (to be completed by client)	IMPLEMENTATION DATE (to be completed by client)
R1	All income received should be receipted.	2	Alison Hunter	Procedures to be sent out as a reminder to all areas.	By 31 August 2013
R2	The discrepancy in the Workington custody float should be identified and corrected.	3	Alison Hunter	The discrepancy has been rectified – some expenditure had not been recorded on the sheet.	Completed
R3	The £11.11 extra in the Carlisle petty cash should be paid into the bank.	3	Alison Hunter	Excess amount to be paid to bank.	By 31 August 2013
R4	Employees should be reminded to return receipts and change from petty cash promptly and items should not be included for reimbursement until actual spend is known and receipts are received.	3	Alison Hunter	Extra training to be provided to Admin Officer.	By 31 August 2013

ACTION PLAN AGREED BY:	*Alison Hunter*	**DATE:**	*11/08/2013*
ACTION PLAN APPROVED BY:	*Roger Marshall*	**DATE:**	*03/09/2013*

CUMBRIA CONSTABULARY
TERRITORIAL POLICING AREAS

SUMMARY OF RECOMMENDATIONS & ACTION PLAN

REPORT REFERENCE	RECOMMENDATION	GRADE	PERSON RESPONSIBLE (to be completed by client)	AGREED / INTENDED ACTION (to be completed by client)	IMPLEMENTATION DATE (to be completed by client)
R5	VAT should only be reclaimed where appropriate receipts are retained.	2	Alison Hunter	Reminder and procedures to be sent out to all areas.	By 31 August 2013
R6	All staff involved with found property should be reminded of the process to be followed and the importance of maintaining the found property database accurately.	2	TPA Chief Inspectors	Findings to be sent out to Area Chief Inspectors responsible for Front Desk found property store.	By 31 August 2013

ACTION PLAN AGREED BY:	*Alison Hunter*	**DATE:**	*11/08/2013*
ACTION PLAN APPROVED BY:	*Roger Marshall*	**DATE:**	*03/09/2013*

Agenda Item 11(iii)

Building Pride in Cumbria

CUMBRIA SHARED INTERNAL AUDIT SERVICE

INTERNAL AUDIT REPORT

A REPORT FOR
THE CUMBRIA OFFICE
OF
THE POLICE & CRIME COMMISSIONER

ON
TREASURY MANAGEMENT

Draft Report Issued: 22 August 2013
Final Report Issued: 2 September 2013

1.0 INTRODUCTION

1.1 Internal Audit undertook an audit review of treasury management as part of the 2013/14 internal audit plan.

1.2 The following staff provided information during this review:

- Lorraine Holme, Financial Services Officer.

2.0 AUDIT SCOPE

2.1 The following table indicates the associated risks reviewed by Internal Audit for this area:

KEY CONTROL AREA	KEY POTENTIAL RISKS
Treasury Management	• Loss of capital invested • Returns below market rate • Undetected problems due to insufficient / inaccurate reporting

3.0 OVERALL EVALUATION, CONCLUSION & RECOMMENDATIONS

3.1 EVALUATION

3.1.1 **The evaluation of controls is based on testing carried out at the time of the audit, usually based on sampling. Internal Audit assesses the controls operating in each audited area as 'good', 'satisfactory', 'fair' or 'weak'. This assessment is based on the number and grading of recommendations made.**

3.1.2 **Table A: Evaluations of controls following testing carried out during this audit review:**

AREA REVIEWED	EVALUATION	RECOMMENDATIONS GRADE			REPORT REF
		1	2	3	
Treasury Management	Good	-	-	-	

3.2 CONCLUSIONS

Treasury Management

3.2.1 **Controls over treasury management are well established and continue to operate well. There is compliance with the approved treasury management strategy and activity is reported to the Office of the Police and Crime Commissioner and the Joint Audit and Standards Committee on a regular and timely basis.**

3.3 RECOMMENDATIONS

3.3.1 No recommendations have been made as a result of testing carried out.

4.0 FOLLOW UP TO THE PREVIOUS AUDIT REVIEW

4.1 Treasury management arrangements were last reviewed in August 2012 and were assessed as good. There were two recommendations made. One recommendation is no longer applicable and the second has been actioned.

5.0 DETAILED FINDINGS & RECOMMENDATIONS

5.1 Treasury Management

5.1.1 The annual Treasury Management Strategy (TMS) for 2013/14 was approved by the Cumbria Office of the Police and Crime Commissioner (OPCC) in February 2013, as required by the CIPFA Code of Practice. The Strategy also sets out the Prudential Indicators for 2013/14 to 2015/16. All relevant staff are aware of the content of the TMS.

5.1.2 The 2011 CIPFA Treasury Management code requires the Treasury Management Strategy Statement to be subject to independent scrutiny. The last independent appraisal of the Strategy was carried out by CIPFA in January 2012.

5.1.3 The OPCC continue to contract Arlingclose Ltd. to provide credit ratings for prospective investment counter-parties as well as providing general financial and economic advice as a context to better inform and support investment decisions. Investments are restricted to an approved list of counterparties set out in the Strategy. It was evident during the audit that when advice is received from Arlingclose the list is updated to reflect the advice given.

5.1.4 The Financial Services Officer undertakes day to day transactions in respect of treasury management. The bank account reconciliation is carried out independently of the Financial Services Officer providing an appropriate segregation of duties.

5.1.5 A cashflow spreadsheet is maintained to calculate surplus balances available for investment. This is reviewed on a daily basis with any surplus funds invested with an approved counterparty. Smaller balances are invested overnight in the 'Liquidity Select' account.

5.1.6 Payments to counterparties are made via an automated link ("Bankline") to the bank and clear the same day via CHAPS. Transactions are arranged by telephone with the dealer and input to the bankline system. The authoriser then approves the Bankline transaction. To maintain a segregation of duties the inputter cannot also authorise the transaction.

5.1.7 A listing of counterparties set up on the Bankline system was extracted at the date of the audit and checked to authorised counterparties in the TMS. There were no investment counterparties set up other than those in the TMS. Other counterparties on Bankline were there for legitimate purposes e.g. Inland Revenue.

5.1.8 Copies of confirmation of investments (dates, amount and interest rate) were retained on file for the investments selected in the audit sample. The correct amount of interest had been credited on the date due.

5.1.9 A report based on the spreadsheet investments record is created by the Financial Services Officer on a weekly basis and is reviewed and approved by the Chief Constable's Chief Finance Officer. A copy is also provided electronically to the Director of Corporate Support and the Chief Finance Officer for the PCC.

5.1.10 Monitoring reports on treasury management performance are prepared by the Financial Services Manager and presented to the Cumbria Police and Crime Commissioner and Cumbria Constabulary Joint Audit and Standards Committee on a quarterly basis with an annual report produced no later than 30 September. The monitoring reports are comprehensive and provided on a timely basis. Treasury management performance is also clearly shown with return on investments compared to budget and to average base rate, and success in minimising un-invested balances to maximise funds on interest bearing deposit.

5.1.11 Changes to the TMS are submitted to the Police and Crime Commissioner for authorisation and to the Chief Finance Officer for officer approval. The TMS and amendment documentation are available on the PCC web site.

5.1.12 Monthly reconciliations from the spreadsheet records to Oracle GL for both investments and interest earned are carried out and independently reviewed on a regular basis. At the time of the audit the latest reconciliation related to June 2013. All reports were prepared and reviewed on a timely basis.

5.1.13 Prudential Indicators were approved by the OPCC in February 2013 as part of the TMS. Prudential indicator compliance is reported as part of the monitoring reports on treasury management performance presented to the Joint Audit and Standards Committee.

Agenda Item 11(iv)

Serving the People of Cumbria

SHARED INTERNAL AUDIT SERVICE

INTERNAL AUDIT REPORT

A REPORT FOR
THE CUMBRIA OFFICE
OF
THE POLICE & CRIME COMMISSIONER

A REPORT ON

Appleby School Bus Incident Review of Policies and Procedures

Draft Report Issued: **29th July 2013**
Final Report Issued: **September 2013**

1.0 INTRODUCTION

1.1 In July 2013 Internal Audit undertook a review of policies, procedures and standing orders in place nationally, force wide and specifically for Appleby Fair in respect of events such as the school bus incident in Appleby.

1.2 The review was undertaken at the request of the Chief Finance Officer / Deputy Chief Executive of the Cumbria Office of the Police and Crime Commissioner to assist in the Police and Crime Commissioner's review of the incident involving a school bus in Appleby during the Appleby Fair. The Constabulary are conducting an internal review of the operational aspects of the incident and this will be made available to the Commissioner.

1.3 The contacts for this review were:-

- Roger Marshall – Head of Financial Services
- Stuart Edwards – Chief Executive (Cumbria Office of the Police & Crime Commissioner)
- Ruth Hunter – Chief Finance Officer / Deputy Chief Executive (Cumbria Office of the Police & Crime Commissioner)
- Jerry Graham – Assistant Chief Constable
- Helen Harkins – T/Inspector

2.0 SCOPE

2.1 Terms of Reference were established for the Police and Crime Commissioner's review of the incident involving a school bus in Appleby with the following two items assigned to Internal Audit for undertaking:-

1. To review, policies, procedures and any standing orders in place for such instances:
   - National
   - Force wide
   - Specifically for Appleby Fair

2. To ascertain whether there was a comprehensive plan in place for the policing of Appleby Fair, and to review that Plan.

This was a desk based review of policies and procedures. The application of the policies and procedures to the incident was outside the scope of this review. Internal Audit did not speak to any officers involved in the incident or have sight of the sequence of events. Other polices and procedures may also be applicable to the incident. However, it is not possible to assess their relevance without knowledge of the facts of the incident.

3.0 SUMMARY AND OVERALL CONCLUSION

3.1 There are common themes running through all the guidance material applicable to the Appleby school bus incident regarding:

- the adequacy of command and control regimes for incidents,
- the quality of incident management logs with supporting rationale for decisions taken,
- evidence of risk assessment and;
- full consideration of tactical options.

However there are also many acknowledgements of the limitations of policies and procedures in the event of spontaneous incidents with very short timescales. There is always the potential for inexperienced responding officers to have to make rapid decisions, without consultation, to protect public safety.

3.2 There remains a need to compare the operational details of the Appleby school bus incident with relevant policies and procedures before any issues can be presented to the Chief Constable for consideration.

Conclusion

3.3 Policy development arrangements for the Constabulary could be improved:
Constabulary policies reviewed by Internal Audit were version controlled. Review dates were noted on two of the three constabulary polices. However, the two policies containing a review date have not been reviewed in accordance with the date on the policies. One of these documents stated "under review". It is not clear how long this has been the case.

3.4 It is not always clear where the policy was approved. Two of the three policies stated that they had been approved by the Ops Board.

3.5 This desk based review has not considered whether the policies have been communicated appropriately and officers trained in their implementation.

4.0 DETAILED FINDINGS & RECOMMENDATIONS

4.1 NATIONAL GUIDANCE

Association of Chief Police Officers of England , Wales and Northern Ireland – Guidance on Public safety Policy (2009)

4.1.1 This guidance material was developed to standardise the Police approach to organised events in public places and improve effectiveness and quality of service when dealing with public safety. The guidance makes it clear that the level of Police resources committed to a public event and the action undertaken will be proportionate to the assessment of risks posed by the event. They will also be restricted to the core areas of Police responsibility:-

a) Prevention and detection of crime.
b) Preventing or stopping breaches of the peace.
c) Traffic regulations within the legal powers provided by statute, a Road Closure Order (TPCA 1847) or a Traffic Regulation Order (RTRA 1984).
d) Activation of a contingency plan where there is an immediate threat to life and co-ordination of resultant emergency service activities.

4.1.2 The guidance notes that the Police are not a lead agency for approving a public event and responsibility for public safety rests with the organisers of the event, the

owners of the land on which it takes place and possibly the Local Authority if the event takes place on a road. The guidance recommends the establishment of multi-agency Safety Advisory Groups to provide advice and guidance to event organisers and other agencies involved. It is generally felt that through consultation and partnership agencies can produce better planned, safer and more resilient events.

4.1.3 Appleby Fair is not an 'organised' event and is not run or licensed by any organisation. However The Multi Agency Strategic Co-ordinating Group (MASCG) was formed from a number of relevant public sector organisations, including Cumbria Constabulary, to oversee a co-ordinated multi-agency response to Appleby Fair, in accordance with best practice.

National Policing Improvement Agency – Guidance on Command & Control (2009)

4.1.4 This guidance has been produced on behalf of the Association of Chief Police Officers (ACPO) to establish a consistent service-wide approach to command and control. The guidance provides a framework of key principles for managing both spontaneous incidents (such as the school bus event in Appleby) and planned operations.

4.1.5 A spontaneous incident is where the police have not had prior warning to develop strategies, tactics and contingency plans. A spontaneous incident can happen at any time and without notice. The guidance stresses that Commanders should ensure that robust information and intelligence management processes are in place to provide as clear a picture as possible of the spontaneous incident as it develops to better inform the police response.

4.1.6 The command structure used by the Police Service is based on the GSB (gold, silver, bronze) hierarchy of command for both spontaneous incidents and planned operations. The guidance states that to be effective those undertaking these roles should be sufficiently trained, experienced and competent. Their role is to make decisions, give clear directions and ensure the directions are carried out. A threat assessment should form the basis on which the proportionality of the police response is judged. The assessment should analyse the potential or actual harm to people or property, the probability of it occurring and the consequences of impact should it occur. Decisions should be documented as part of an audit trail.

4.1.7 There is a need to establish if:

- **a formal command structure was in place for the school bus incident in Appleby and;**
- **clear lines of communication and accountability were maintained together with decisions logged showing clear, supporting rationale.**

Given the complex and significant health and safety issues at play there should be evidence that a risk based method was adopted to assess tactical options and any hazards or other risks faced.

4.2 CUMBRIA CONSTABULARY GUIDANCE

Cumbria Constabulary – Incident Grading & Deployment Policy & Procedures (2012)

4.2.1 The policy and supporting procedures provide an incident response grading framework to determine an appropriate and proportionate response to incidents. They are a guide to Communications Centre staff and operational officers when making decisions in respect of the deployment of resources.

4.2.2 The procedures make it clear that the Communications Centre is responsible for the initial grading and deployment of resources to incidents and lists a number of factors for consideration:-.

- Nature of the incident, considering risk assessment and crewing policy.
- Location of the incident.
- Proximity of officers to the incident.
- Community / neighbourhood concerns.
- If the call relates to an ongoing operation.
- Primary roles of uniformed patrol officers / RPU officers / PCSOs / other resources.
- Staff training & development.
- Specialist skills & roles.

Incidents are graded 1 – 4, with 4 being resolution without deployment and 1 being an emergency requiring an immediate response. Grade 1 incidents are where there is likely to be a danger to life, use of violence (or immediate threat of), serious injury to a person, serious damage to property.

4.2.3 The Communications Centre must also ensure that relevant operational supervisors and / or commanders are made aware of those incidents as soon as practicable where an appropriate command structure can be implemented at an early stage. The Force Incident Manager (FIM) is required to support the Communications Centre and take early command of serious, critical and major incidents until such time as command can be properly transferred to an operational supervisor, with the relevant training and qualification.

4.2.4 Attending officers are required to respond dynamically during the initial stages of incidents. Procedures require that early updates are given on arrival at incidents so that appropriate resources can be deployed and better informed command decisions can be taken.

4.2.5 There is a need to establish:

- **how the Appleby school bus incident was graded and the justification for the grading and**
- **if an adequate control and command regime was in place, whether or not the risks to the public were assessed and if an appropriate and proportionate mitigating response transpired.**

<u>Cumbria Constabulary – Police Emergency Response & Pursuits Policy (2010) and Supporting Response Procedures</u>

4.2.6 The policy and supporting procedures attempts to ensure that officers and staff understand the organisational expectations in relation to dealing with any emergency response or pursuit situation by setting clear operational boundaries. The strategic objective of any pursuit is to secure a safe resolution which will lead to the apprehension of offenders and prevention of crime.

4.2.7 The procedures cover training requirements for those performing any role in emergency responses / pursuit management, authority to conduct pursuits, tactical options for resolution, command of pursuits, recording pursuit activity, documentation of decisions taken with supporting rationale and communications.

4.2.8 There is an acknowledgement within the guidance material that, in the rapidly changing circumstances of an unforeseen operational incident, actions may be taken by individual officers that do not strictly comply with procedures. Where timescales are short there is often a need for officers to use their own professional judgement and experience to determine the most appropriate course of action and justify their actions later. The text below is an extract from the Police Emergency Response & Pursuits Policy:-

> *The attached procedures and codes of practice contain a number of references to the need for varying levels of formal authority to be granted before pursuit can continue or tactics be deployed. There is, however, recognition of the fact that on occasion officers will be confronted with circumstances which require immediate action in respect of their duty to protect life and property. In such circumstances an officer may self authorise the deployment of a particular tactic.*
>
> *If an officer takes the decision to self authorise deployment of a tactic it is imperative the decision can be justified and seen to be proportionate in any subsequent investigation or enquiry. The appropriate authority level must be contacted as soon as practicable with regard to the decision made.*
>
> *This policy, codes of practice and the tactics accompanying them are designed and intended to control the routine acts of criminality likely to be encountered by officers in the course of policing. No policy or code of practice can dissect, risk-assess, encapsulate and then carry in text, every potential tactical option necessary to protect the public in extraordinary circumstances where people prepare to commit atrocities. In such circumstances, it is acknowledged significant actions may be considered and taken in very short timescales outside the scope of these codes.*

4.2.9 In the first instance it is necessary to establish if a pursuit was undertaken during the Appleby school bus incident. If a pursuit was undertaken there is a need to establish:

- **if those involved were sufficiently trained,**
- **if appropriate authority was given for the pursuit,**
- **if tactical options for resolution were fully considered and;**
- **if adequate command and control arrangements were in place during the pursuit.**

All activity / actions during a pursuit should be fully documented with supporting rationale for decisions taken.

<u>Cumbria Constabulary – Critical Incident Policy and Procedures (2007)</u>

4.2.10 A critical incident is defined as:

'Any incident where the effectiveness of the police response is likely to have a significant impact on the confidence of the victim, their family and / or the community'.

4.2.11 The critical incident procedures provide guidance on critical incident identification and initial action. Areas covered in the procedures include the command structure, communications and the recording of decisions and rationale within incident management logs.

4.3 APPLEBY FAIR POLICING PLAN

Appleby New Fair Operational Order (2013)

4.3.1 This document represents the policing element of the multi-agency response to Appleby Fair. The document is comprehensive in terms of setting strategic objectives, setting out an established command structure and covering areas such as resourcing, road policing, infrastructure, policies and procedures and communications.

4.3.2 Specific mention is not made of spontaneous incidents that might occur during Appleby Fair. However the document does make it clear that local serials are designed to be a flexible response to all normal day to day Neighbourhood Policing Team business as well as providing a flexible response to resource incidents within the event area. An arrest vehicle is to be maintained in Appleby town centre sector at all times and there is a defined command structure in place for the duration of the event with a clear indication that decision logs will be maintained by Silver and Bronze Commanders.

4.3.3 A series of pre-event briefings were arranged to ensure all commanders and serial supervisors were aware of their roles and responsibilities for the event. Officers' guides were also published and circulated which cover admin arrangements for the event but also a guide to powers and procedures for key aspects of the operation.

Cumbria Office of the Police and Crime Commissioner

Title: Treasury Management Activities 2013-14 for the period April to July 2013

PCC Executive Board: 03 September 2013

Joint Audit and Standards Committee: 23 September 2013

Agenda Item No: 12

Originating Officer: Michelle Bellis, Financial Services Manager

1. Purpose of the Report

1.1. The purpose of this paper is to report on the Treasury Management activities, which have taken place during April to July 2013 in accordance with CIPFA's Code of Practice on Treasury Management.

1.2. Treasury Management activities are undertaken in accordance with the Treasury Management Strategy Statement and Treasury Management Practices approved by the Commissioner in February each year.

2. Recommendation

2.1. The Commissioner is asked to note the contents of this report, the report will also be presented to the Joint Audit and Standards Committee in September where members will be asked to scrutinise the contents of the report.

2.2. Members are asked to scrutinise the contents of this report.

3. Economic Background

3.1. Recent months have shown a marked improvement in economic activity, both in the UK and abroad, supporting the view of the outgoing Governor of the Bank of England, Mervyn King, that a gradual but sustained recovery in the world economy is now underway. The Eurozone in particular has a exhibited a rebound from 18 months of contraction with Germany, France and Portugal all reporting strong growth in the 2nd quarter of 2013. However, there is a degree of caution that a number of other economies on the periphery of Europe remain firmly locked in recession. In the US modest economic growth has continued and is expected to accelerate in the latter half of 2013, whilst prospects within emerging economies generally appear to be gravitating towards more sustainable levels of growth.

3.2. In the UK initial estimates of growth in GDP of 0.6% were reported, suggesting that the economy has grown by almost 1% in the first half of 2013, compared to virtually zero growth in the whole of 2012. The Bank of England's latest quarterly inflation report has revised growth estimates upwards to 1.5% in 2013 and 2.7% in 2014. The latest inflation data at the end of July showed a slight decline in the Consumer Price Index (CPI) to 2.8%, however this remains significantly above the Government's target of 2%. The latest inflation report suggests that CPI is likely to remain around 3% in the near term, but recognises that at a time of low economic activity there is a trade-off between stimulating the economy and maintaining price stability. For the present growth remains the priority, but this balance is likely to become more finely drawn as the economy strengthens. Wage inflation remains subdued at around 1%. The level of unemployment has remained broadly unchanged over the three months to June at 2.5m, which represents 7.8% of the workforce. Following the introduction of the Government's Help to Buy Scheme, house building and prices have shown a jump, but with large regional variations.

3.3. At the August meeting of the Bank of England's Monetary Policy Committee (which has responsibility for setting interest rates) the new Governor of the Bank of England, Mark Carney, announced that the MPC would now depart from previous practice by providing explicit forward guidance on interest rates, as a means of providing more certainty and boosting economic confidence. The MPC announced that it intends to keep interest rates at their current level of 0.5% until the unemployment rate falls to 7%, subject to certain caveats (described as knockouts) which if breached would no longer make the policy appropriate. However, it is considered unlikely that these conditions will be breached. Against this

background interest rates are likely to remain at 0.5% until at least 2016. A graph showing past UK Bank of England Base Rate movements together with Arlingclose projections for the next two years is shown for the Committee's information as **Appendix 1**.

4. Treasury Management Operations and Performance Measures

4.1. The Commissioners day to day treasury management activities are undertaken on behalf of the Commissioner's Chief Finance Officer (PCCCFO) by the financial services team under the management of the Chief Constable's Chief Finance Officer (CCCFO). Authority to transact is set out in the Commissioner's scheme of delegation.

4.2. Management of cash balances

Members are reminded that the aim is to invest surplus cash and minimise the level of un-invested cash balances, whilst following the Treasury Management Strategy to limit risks to the Commissioner's funds. Actual un-invested balances for the period April to July 2013 for the Commissioner's main bank account are summarised in the table below:

	Number of Days	Average Balance £	Largest Balance £
Days In Credit	121	1,575	14,405
Days Overdrawn	1	(5,065)	(5,065)

The largest un-invested balance occurred on 15 July and was as a result of an unexpected receipt in relation to an insurance claim that was paid directly into the bank. The interest forgone as a result of the non-investment of this sum for one day would be approximately £0.32.

The largest overdrawn balance occurred over the Easter Bank Holiday weekend on 28 March to 2 April and was as a result of a bank decision to reverse a cash deposit which had shown in the mornings cleared banking figures. The result of this reversal was that the main bank account was overdrawn by £5k for 5 days. As a result of the bank account pooling arrangements where all accounts are amalgamated for calculation of interest, no interest was incurred as a result of this reversed transaction. This instance was also reported in the previous report as the transaction spanned the year end.

Within the Treasury Management Strategy a target is set to achieve a daily balance of +/- £2k on the Commissioner's main bank account. Whilst the daily treasury management process always calculates the anticipated balance within these limits, daily transactions through the bank of which we are not aware (e.g. banking of cash/cheque receipts) can alter the closing balance for the day. During the period April to July 2013 the balance was within the £2k limit for 92 out of 122 days (75%).

4.3. Investment Activity

The table below illustrates the number and value of investments made with Major UK Banks (category 1), other Local Authorities (category 3) and the Debt Management Office (category 4) of the approved investment counterparties during the period April to July 2013:

Month	Number of Investments	Total Value of Investments £m
April 2013	5	8.5
May 2013	4	7.0
June 2013	0	0.0
July 2013	7	13.7

In addition to the above there are regular smaller investments made via liquidity funds (category 2).

In June 2013, the Commissioner approved a change to the investment strategy (decision ref. 029/2013) by increasing the maximum investments amounts permitted within the approved counterparty list as follows:

- within Category 1 (major banks & building societies) the maximum per individual institution or group was increased from £3m to £4.5m and the total for this category was increased from £12m to £18m.
- within category 2 (AAA rated money market funds) the maximum per individual institution or group was increased from £2m to £3m and the total for this category was increased from £10m to £15m.

The change was requested as a result of work on a more detailed cash flow forecast for 2013-14 where the projected available balances were estimated to be higher than originally anticipated, in order to find suitable counterparties for the increased level of investments and following discussions with the Commissioners treasury advisors Arlingclose Ltd, the increased limits were proposed.

A schedule detailing the individual investments that make up the £31.086m total invested at 31 July 2013 is attached at **Appendix 2**.

A further illustrative analysis is provided of the balance outstanding at **Appendix 3**, where the first chart analyses the outstanding balance by the credit rating of the investment counterparty and the second shows the maturity structure of investments by the credit rating of the counterparty. Members are reminded that the Commissioner's current policy is that investment counterparties have minimum credit rating of A-. (The greater the number of A's the higher the credit rating).

As can be seen from **Appendix 4** below, the Commissioner sets a limit for "non-specified" investments of over 364 days at time of investment, for 2013-14 this limit was set at £5m. The Commissioner currently has four investments where at the time of investing were for a period of over 364 days. These are set out in the table below:

Borrower	Value £m	Period (Days)	Date Invested	End Date	Actual Rate (%)
Barclays Bank PLC	1.0	366	27/02/2013	28/02/2014	0.91%
Barclays Bank PLC	1.0	365	04/04/2013	04/04/2014	0.88%
Barclays Bank PLC	1.0	365	09/05/2013	09/05/2014	0.85%
Barclays Bank PLC	1.5	365	03/07/2013	03/07/2014	0.87%
Total	**4.5**				

Interest Earned

Interest earned for the period of the report and the average return on investment that it represents is set out in the table below:

Month	Interest Amount (£)	Average Total Investment (£)	Average Return on Investment (%)
April 2013	7,613	20,562,667	0.45%
May 2013	8,739	19,543,484	0.53%
June 2013	8,408	17,844,900	0.57%
July 2013	14,547	33,181,839	0.52%
TOTAL	**39,305**	**22,783,223**	**0.52%**

Total interest earned during the first four months of 2013-14 has amounted to £39k. A comparison of this figure against budget is outlined in the table below:

	Amount (£000's)
Original Estimate 2013-2014	82
Forecast Position July 2013	107
Forecast increase compared to Estimate	25

The increase in forecast interest receipts is broadly consistent with the increase projected as a result of the change in investment strategy as outlined in paragraph 4.3 above.

4.4. Investment Performance

As a performance measure for the quality of investment decisions, the rate achieved on maturing longer term investments of over three months is compared with the average Bank of England base rate over the life of the investment. The table below provides details of the individual performance of investments (of over 3 months duration at time of investment) for the period April to July 2013:

Borrower	Value £m	Period (Months)	Actual Rate (%)	Average Base Rate (%)
Lloyds TSB	1	3	0.70%	0.50%

5. Compliance with Prudential Indicators

5.1. The Commissioner can confirm that he has to date complied with his treasury related Prudential Indicators for 2013-14, which were set in February 2013 as part of the annual Statement of Treasury Management Strategy. Further details can be found at **Appendix 4**.

6. Implications

6.1. Financial – As detailed in main body of report above.

6.2. Legal – None

6.3. Risk – The report advises members about treasury activities. Given the large unsecured sums invested with financial institutions treasury management can be a risky area. Nevertheless, procedures are in place to minimise the risks involved, including limits on the sums to be invested with any single institution and reference to credit ratings are set down in the PCC's treasury strategy and in particular the treasury management practices (TMP1 Treasury Risk Management).

6.4. HR / Equality – Non

6.5. I.T – None

6.6. Procurement – None

7. Supplementary information

Attachments

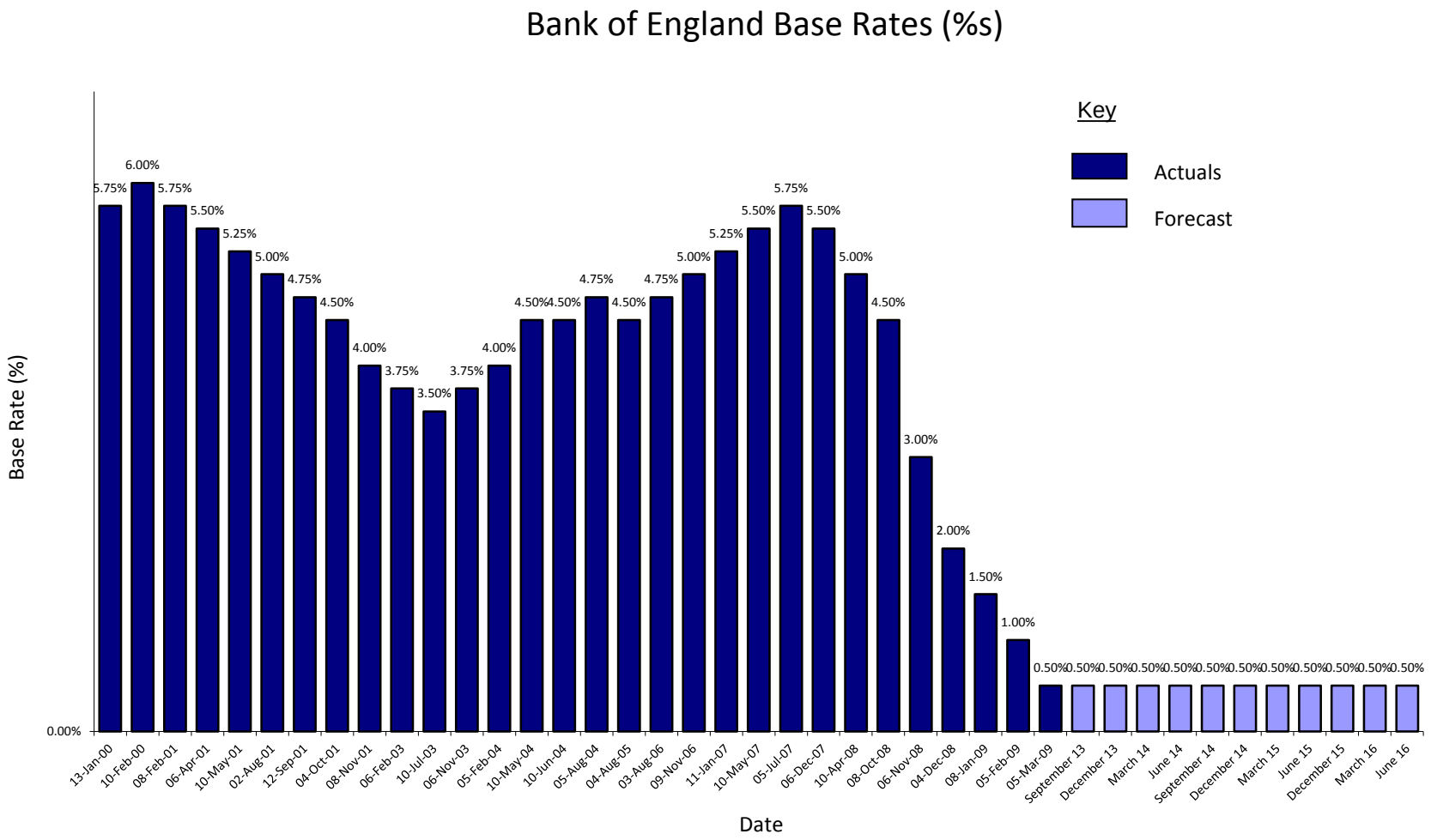
Appendix 1 Recent history and projections of Bank Base Rates

Appendix 2 Schedule of Investments as at 31 July 2013

Appendix 3 Analysis of Investments as at 31 July 2013

Appendix 4 Prudential Indicator Compliance

Appendix 1


Bank of England Base Rates (%s)
Key
Actuals
Forecast
Base Rate (%)
0.00%
5.75%
6.00%
5.75%
5.50%
5.25%
5.00%
4.75%
4.50%
4.00%
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08-Feb-01
06-Apr-01
10-May-01
02-Aug-01
12-Sep-01
04-Oct-01
08-Nov-01
06-Feb-03
10-Jul-03
06-Nov-03
05-Feb-04
10-May-04
10-Jun-04
05-Aug-04
04-Aug-05
03-Aug-06
09-Nov-06
11-Jan-07
10-May-07
05-Jul-07
06-Dec-07
10-Apr-08
08-Oct-08
06-Nov-08
04-Dec-08
08-Jan-09
05-Feb-09
05-Mar-09
September 13
December 13
March 14
June 14
September 14
December 14
March 15
June 15
December 15
March 16
June 16
Date

Appendix 2

Schedule of Investments as at 31 July 2013

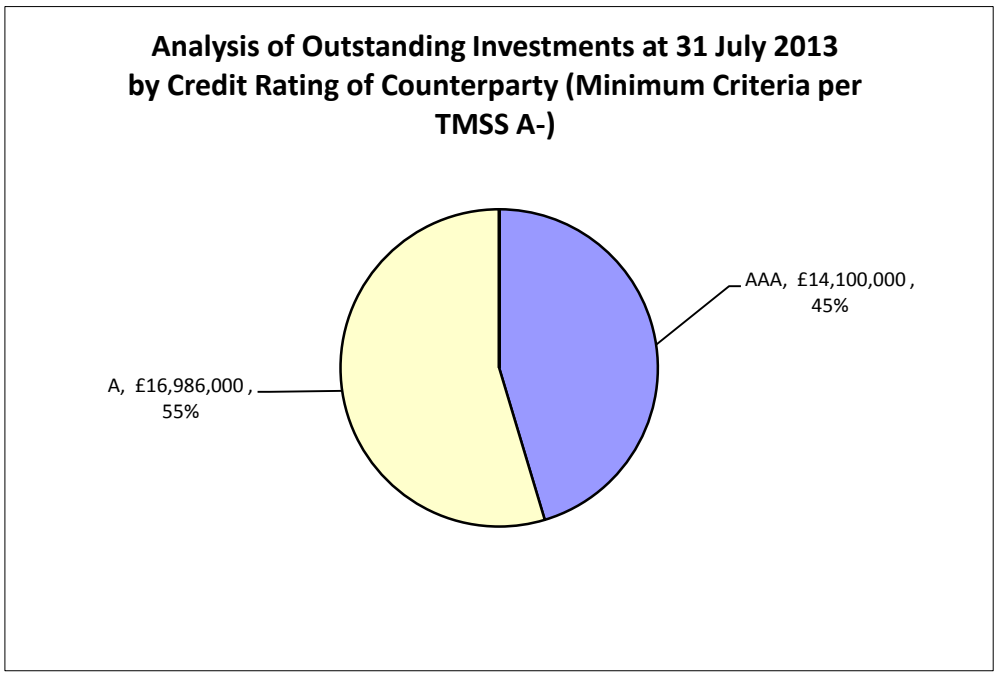
Category/Institution	Credit Rating	Investment Date	Investment Matures	Days to Maturity	Rate (%)	Amount (£)	Counterparty Total (£)
Category 1 - Major Banks & Building Societies							
Lloyds	A	27/03/2013	30/09/2013	61	0.800%	1,000,000	
Lloyds	A	09/05/2013	11/11/2013	103	0.800%	1,000,000	
Lloyds	A	03/07/2013	03/10/2013	64	0.700%	1,500,000	
Lloyds	A	26/07/2013	30/09/2013	61	0.410%	1,000,000	4,500,000
Barclays	A	27/02/2013	28/02/2014	212	0.910%	1,000,000	
Barclays	A	04/04/2013	04/04/2014	247	0.880%	1,000,000	
Barclays	A	09/05/2013	09/05/2014	282	0.850%	1,000,000	
Barclays	A	03/07/2013	03/07/2014	337	0.870%	1,500,000	4,500,000
Nationwide	A	03/07/2013	30/09/2013	61	0.430%	1,500,000	
Nationwide	A	03/07/2013	31/10/2013	92	0.460%	3,000,000	4,500,000
NatWest Bank (Liquidity Select Account)	A	28/02/2013	01/03/2013	O/N	0.800%	3,486,000	3,486,000
						16,986,000	16,986,000
Category 2 - Money Market Funds (AAA Rated)							
AIM	AAA	Various	On demand	O/N	Various	3,000,000	3,000,000
BlackRock	AAA	Various	On demand	O/N	Various	700,000	700,000
Fidelity	AAA	Various	On demand	O/N	Various	1,900,000	1,900,000
Goldman Sachs	AAA	Various	On demand	O/N	Various	3,000,000	3,000,000
Scottish Widows	AAA	Various	On demand	O/N	Various	3,000,000	3,000,000
IGNIS	AAA	Various	On demand	O/N	Various	2,500,000	2,500,000
						14,100,000	14,100,000
Category 3 - Other Local Authorities							
						0	**0**
Category 4 - Debt Management Office							
						0	**0**
Total						**31,086,000**	**31,086,000**

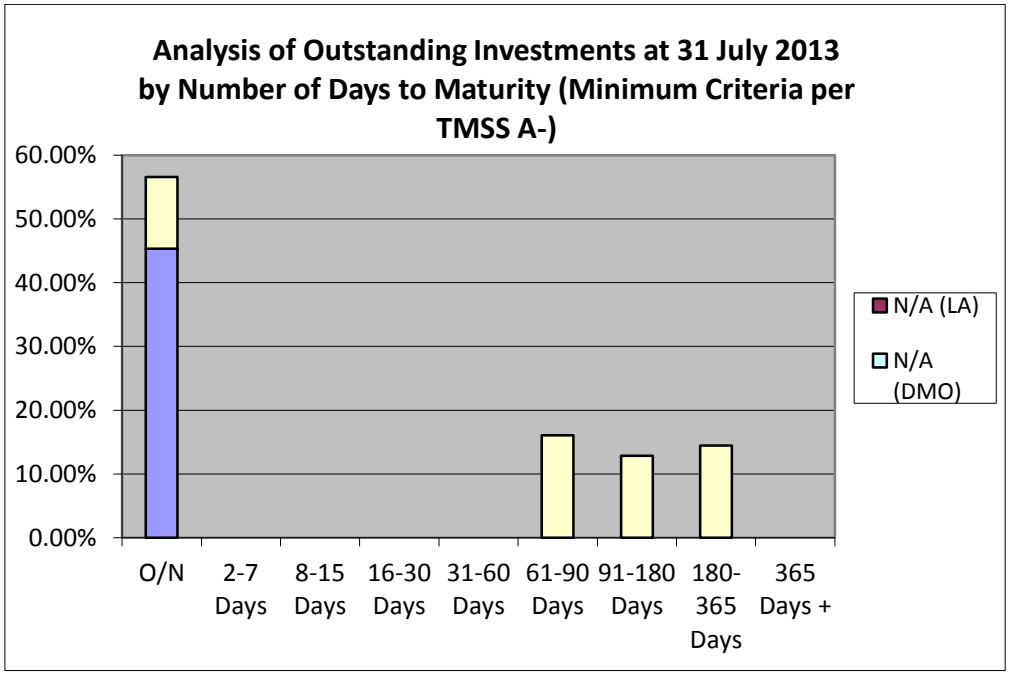
Note – the credit ratings shown in the above table relate to the standing as at 31 July 2013, as discussed in the main body of the report, the ratings are constantly subject to change.

The TMSS sets limits for maximum investment with counterparties. These limits are currently set at £4.5m per institution/banking group in category 1 (total £18m category limit) and £3m per Money Market Fund in category 2 (total £15m category limit). The limit for other Local Authorities is set at £2m (no category limit) and there is no limit for investments with the DMO. The above table illustrates that these limits have not been exceeded.

Appendix 3

Analysis of Outstanding Investments as at 31 July 2013





Note – the credit ratings shown in the above charts relate to the standing as at 31 July 2013, as discussed in the main body of the report, the ratings are constantly subject to change.

Appendix 4

Prudential Indicator Compliance

(a) Authorised Limit and Operational Boundary for External Debt

- The Local Government Act 2003 requires the Commissioner to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached during the year.
- The Commissioner's Affordable Borrowing Limit was set at £26.15m for 2013-14.
- The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit.
- The Operational Boundary for 2013-14 was set at £24.65m.
- The actual amount of external borrowing as at 31 July 2013 was £Nil which is well within the above limits. No new external borrowings have been undertaken in the current financial year.

(b) Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

- These indicators allow the Commissioner to manage the extent to which it is exposed to changes in interest rates.
- The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	Limits for 2013-14 £m	**Actual Borrowing at 31/07/13 £m**	**Compliance with Limits ?**
Upper Limit for Fixed Rate Exposure	26.15	0	Yes
Upper Limit for Variable Rate Exposure	1.50	0	Yes

(c) Maturity Structure of Fixed Rate Borrowing

- This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Maturity Structure of Fixed Rate Borrowing	**Upper Limit %**	**Lower Limit %**	**Actual Fixed Rate Borrowing as at 31/07/13 £m**	**% Fixed Rate Borrowing as at 31/07/13 %**	**Compliance with Set Limits?**
Under 12 months	100	0	0	0	Yes
12 months and within 24 months	100	0	0	0	Yes
24 months and within 5 years	100	0	0	0	Yes
5 years and within 10 years	100	0	0	0	Yes
10 years and above	100	0	0	0	Yes

Appendix 4

(d) **Total principal sums invested for periods longer than 364 days**

- This indicator allows the Commissioner to manage the risk inherent in investments longer than 364 days.
- The limit for 2013-14 was set at £5m.
- As at 31 July 2013, the PCC had four investments totalling £4.5m for a period of greater than 364 days. Please see additional details within paragraph 4.3 above.

CUMBRIA POLICE AND CRIME COMMISSIONER

STRATEGIC RISK REGISTER

DATE: March 2013 **VERSION CONTROL NO: 01/2013**

Risk Mitigation Strategies:

Avoid : Stop the risk completely or stop it having an
Reduce : Reduce the likelihood and/or impact of the risk
Transfer : Outsource, use contractors or insure against things going wrong
Accept : The risk is tolerable/accepted

Risk Score:	Impact	Likelihood	
5	Very High	Very High	> 90% probability
4	High	High	65% > 90% probability
3	Medium	Medium	20% > 65% probability
2	Low	Low	5% > 20% probability
1	Very Low	Very Low	< 5% probability

		Unmitigated Score			Mitigated Score			Risk Owner			
Risk No.	Risk Description	Impact	Likelihood	Risk Score	Impact	Likelihood	Risk Score	Risk Owner	Action Owner	Frequency of Assessment & Proposed Cycle	Date of Next Review
R1	Governance / Internal Control .	5	4	20	4	2	8	Chief Executive	Chief Finance Officer	Annual	June 2014
R2	Strategic Finance	4	5	20	4	2	8	Chief Executive	Chief Finance Officer	Annual	June 2014
R3	Diversity	4	3	12	4	2	8	Chief Executive	Comms & Engagement Executive	Annual	November 2013
R4	Reputation	4	3	12	3	2	6	Chief Executive	Comms & Engagement Executive	Annual	November 2013
R5	Priorities and Objectives	3	5	15	3	2	6	Chief Executive	Policy & Performance Manager	Annual	November 2013
R6	Consultation / Engagement	4	3	12	4	2	8	Chief Executive	Comms & Engagement Executive	Annual	November 2013

Scores

15 - 25	Quarterly Reviews
10 - 14	Half Yearly Reviews
9 or less	Annual Reviews

CUMBRIA POLICE AND CRIME COMMISSIONER STRATEGIC RISK REGISTER

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	Unmitigated Score			Mitigated Score				Actions				
Risk Description	**Impact**	**Likelihood**	**Risk Score**	**Impact**	**Likelihood**	**Risk Score**	**Risk Owner & Mitigation Strategy (Avoid, reduce, transfer, accept)**	**Actions Already Taken to Mitigate the Risk**	**Outstanding Risk Mitigation Actions**	**Response Action or Management Approach to be Taken if Risk Occurs**	**Action Owner(s)**	**Review Date**
R1 - Governance/Internal Control												
Failure of governance/internal controls resulting in risks materialising & potential for fraud, error, irregularity.	5	4	20	4	2	8	Chief Executive (reduce)	Internal control arrangements subject to annual review; Internal and external audit arrangements; Section 151 Officer post; annually reviewed financial regulations, contract standing orders, scheme of delegation and code of governance. Risk management strategy and risk register in place. Further assurance through Independent Audit and Standards Committee.		Review of the the control environment; specific internal audit investigation; implementation of revised control procedures.	Chief Finance Officer	Jun-14
Decision making fails to take account of all relevant information and inherent risks or fails to follow procedure resulting in unexpected consequences/poor decision making or judicial challenge.	5	4	20	5	2	10	Chief Executive (avoid)	Reports are required to follow a specific format that takes cogniscance of risk, financial, legal, HR implications etc. Reports are considered by the commissioners staff prior to decision making. Procedure standing orders are in place. The governance manager has responsiblity for ensuring compliance with the requirements. The Chief Executive is the Commissioner's monitoirng officer with oversight of the arrangements.		Consider the need for any training of staff as appropriate. Time allowing, reports will be returned to the author for the inclusion of implications within reports.	Governance Manager	Jun-14
Risk - Failure to hold the Constabulary to account for having robust governance/internal control arrangements including arrangements for managing risk.	4	4	16	4	2	8	Chief Executive (reduce)	Joint Audit and Standards Committee, Commissioners CFO leads on arrangements for internal audit for both organsiations. The Commissioner requires the Chief Constable to adopt financial regulations & contract standing orders/business code of conduct as part of the funding arrangements. Information sharing protocol. Chief Constable must appoint a statutory CFO who is professionally qualified and has statutory/professional responsiblities. The Commissioners Governance manager has specific responsibilities with regard to assurance on Constabulary risk mangement practices.		A review of would be understaken to establish whether there are any weaknessess in the control framework that may need improving. Consideration would be given to further internal audit review either to investigate a specific area or as part of the annual audit.	Governance Manager	Jun-14

CUMBRIA POLICE AND CRIME COMMISSIONER STRATEGIC RISK REGISTER

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	Unmitigated Score			Mitigated Score				Actions				
Risk Description	**Impact**	**Likelihood**	**Risk Score**	**Impact**	**Likelihood**	**Risk Score**	**Risk Owner & Mitigation Strategy (Avoid, reduce, transfer, accept)**	**Actions Already Taken to Mitigate the Risk**	**Further Risk Mitigation Actions**	**Response Action or Management Approach to be Taken if Risk Occurs**	**Action Owner(s)**	**Review Date**
R2 - Strategic Finance												
Failure to meet the statutory requirement to deliver a robust balanced budget.	4	5	20	3	2	6	Chief Executive (Reduce)	Medium term capital and revenue plans align resources and expenditure; balances and reserves annually assessed to ensure financial risks are provided for; in year monitoring ensures an understanding of actual costs and income against budget and provides information for future budget cycles; subscriptions to the technical information service ensures regular updates on funding assumptions at a national level and modelling on their potential local implications.		Use of balances and reserves to manage any unexpected funding loss. Recruitment/expenditure freeze could be implemented to reduce costs and allow time for the delivery of planned savings.	Chief Finance Ofifcer	Jun-14
Potential for challenge/judicial review on setting a legal budget:	4	2	8	3	1	3	Chief Executive (Reduce)	Annual community engagement exercise to determine priorities. Budget consultation process and service change constulation process for measures where public views should be sought. Procedure standing orders and professional input into all reports. Monitoring officer oversight of decision making process.		Legal advice would need to be sought on the likelihood of the challenge being successful. Implementation of an individual savings proposal may need to be put on hold and alternative savings sought or use of reserves pending the outcome of the challenge.	Chief Finance Ofifcer	Jun-14
Failure to manage expenditure within the annual budget:	4	4	16	3	2	6	Chief Executive (Reduce)	Budget monitoring processes; accurate budget setting process; financial regulations/budget holder responsiblities; financial systems and processess provide for early identification of presssures and mitigating action; balances and reserves can be utilised.	No further mitigating actions recommended.	fund overspend from balances and/or implement recrutment/expenditure freeze. Review the reasons for the overspend and make decisions on permanent mitigations.	Chief Finance Ofifcer	Jun-14
Failure to meet the statutory deadline for the Accounts and achiveve an unqualified audit opinion resulting in reputational damage and failure to comply with statutory requirements:	3	5	15	3	2	6	Chief Finance Officer (Reduce)	Appropriately qualified and experience staff, detailed accounts closure process overseen by PCCCFO and CCCFO, external auditors engage with and monitor the process, internal audit review underlying systems that produce the financial informtion to assure its reliabilty.		A fundamental review of the process and issues resulting in this risk materialising would need to be undertaken. This would aim to establish the underlying causes and ensure appropriate controls/resources are put in place in future years.	Deputy Chief Finance Ofifcer	Jun-14

CUMBRIA POLICE AND CRIME COMMISSIONER STRATEGIC RISK REGISTER

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1	Very Low	Very Low < 5% probability

	Unmitigated Score			Mitigated Score				Actions				
Risk Description	**Impact**	**Likelihood**	**Risk Score**	**Impact**	**Likelihood**	**Risk Score**	**Risk Owner & Mitigation Strategy (Avoid, reduce, transfer, accept)**	**Actions Already Taken to Mitigate the Risk**	**Outstanding Risk Mitigation Actions**	**Response Action or Management Approach to be Taken if Risk Occurs**	**Action Owner(s)**	**Review Date**
R3 - Diversity												
Failure to ensure OPCC / Constabulary effectively promote and take into account equality and diversity in developing policy / operational practices in line with the Equalities Act 2010	4	2	**8**	2	2	**4**	Chief Executive (Avoid)	Equality Analysis undertaken for all new policy / operational practices. Following consultation the Police & Crime Plan has been amended to focus on hate crime and this will then be linked to the performance framework	None	To take appropriate advice from the Strategic Independent Advisory Group and the Constabulary Diversity Manager	Communications and Engagement Executive	Nov-13
Failure to meet statutory requirements and public expectations in respect of divesity, including the adoption and review of an Equality Scheme may lead to legal challenge, public criticism and/or loss of public confidence.	4	3	**12**	4	2	**8**	Chief Executive (Avoid)	Policies and procedures are in place to ensure statutory requirements are met. Subscriptions to national bodies ensure advice and guidance is available. An equality statement and strategy is used as the basis for compliance with the Equality Act.		Immediate action to address any issues of non-compliance and review of systems and processess for determining the cause of the failure to comply.	Governance Manager	Nov-13
Failure by the OPCC to undertake an Equality Impact Assessment of its policies and understand the implications may result in particular groups and communities being adversely affected or discriminated against.	4	3	**12**	4	2	**8**	Chief Executive (Avoid)	Full equality impact assessments are included with PCC new policies and strategic decisions and are requested in respect of Constabulary policies/decisions.		Immediate action to address any issues of non-compliance and review of systems and processess for determining the cause of the failure to comply. Change polices as appropriate.	Governance Manager	Nov-13
Failure to hold the Constabulary to account for their arrangements in respect of diversity may result in particular groups and communities being adversely affected or discriminated against.	4	3	**12**	4	2	**8**	Chief Executive (Avoid)	The requirements in respect of Constabulary equality practices and information is included in within the Constabulary/COPCC information sharing protocol and made a requirement of the PCC/Force funding agreement.		Consider possible legal or financial penalties.	Governance Manager	Nov-13

CUMBRIA POLICE AND CRIME COMMISSIONER STRATEGIC RISK REGISTER

STRATEGIC RISK REGISTER

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	Unmitigated Score			Mitigated Score				Actions				
Risk Description	**Impact**	**Likelihood**	**Risk Score**	**Impact**	**Likelihood**	**Risk Score**	**Risk Owner &** Mitigation Strategy (Avoid, reduce, transfer, accept)	**Actions Already Taken to Mitigate the Risk**	**Outstanding Risk Mitigation Actions**	**Response Action or Management Approach to be Taken if Risk Occurs**	**Action Owner(s)**	**Review Date**
R4 - Reputation												
Failure to deal with conduct issues promptly, fairly and properly.	4	3	**12**	3	2	**6**	Chief Executive (Avoid)	code of conduct for members and officers; independent audit and standards committee; membership of cumbria and lancashire standards group.		Review conduct issue and take corrective action. Communications and media support where the issue is public/reputional. Legal advice where appropriate.	Communications & media Executive	Nov-13
Failure to robustly deal with an incident that significantly damages the reputation or public perception of the OPCC and the Commissioner.	4	2	**8**	3	2	**6**	Chief Executive (Avoid)	The office of public engagement has a strategy. Reputational issues are discussed at weekly Exec Board and joint OPCC / Constabulary Comms Management		Strategic Working Group to be established with clear corporate objectives led by the Commissioner or Chief Executive. To be supported by a pro-action media strategy.	Communications & media Executive	Nov-13
Failure to scrutinise the Constabulary significantly that results in the Constabulary suffering damage to its reputation	4	2	**8**	3	2	**6**	Chief Executive (Avoid)	The office of public engagement has a strategy. Reputational issues are discussed at weekly Exec Board and joint OPCC / Constabulary Comms Management		Strategic Working Group to be established with clear corporate objectives led by the Commissioner or Chief Executive. To be supported by a pro-action media strategy.	Communications & media Executive	Nov-13

CUMBRIA POLICE AND CRIME COMMISSIONER STRATEGIC RISK REGISTER

STRATEGIC RISK REGISTER

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	Unmitigated Score			Mitigated Score				Actions				
Risk Description	**Impact**	**Likelihood**	**Risk Score**	**Impact**	**Likelihood**	**Risk Score**	**Risk Owner & Mitigation Strategy (Avoid, reduce, transfer, accept)**	**Actions Already Taken to Mitigate the Risk**	**Outstanding Risk Mitigation Actions**	**Response Action or Management Approach to be Taken if Risk Occurs**	**Action Owner(s)**	**Review Date**
R5 - Priorities and Objectives												
Failure to achieve the organisational objectives and priorities set out within the Police and Crime Plan and Service Plan	4	5	**20**	4	3	**12**	Chief Executive (reduce)	Plans are monitored through out the year. Performance data and actions are carefully considered as to their deliverablity when setting the plans. Dedicated Partnerships and Strategy Manager works closely with the Constabulary to consult and agree targets and outcomes and the information requirements in year to ensure delivery is on track. Performance montioring arrangements are in place for the Constabulary. Funding agreements developed with partners which provide performance reporting arrangements.	Approval and adoption within the funding agreement of a strategic work programme to be used to monitor Constabulary delivery of Police and Crime Plan actions. Continued review and development of holding to account for Constabulary performance. Delivery of Service Plan and development of reporting mechanism. On-going development of performance reporting with partners.	A fundamental review of the process and issues resulting in this risk materialising would need to be undertaken. This would aim to establish the underlying causes and ensure appropriate action is taken. The area of underperformance would be reviewed and appropriate action taken.	Partnerships and Strategy Manager (Constablary performance), Chief Finance Officer (Service Plan)	Mar-14

CUMBRIA POLICE AND CRIME COMMISSIONER STRATEGIC RISK REGISTER

VERSION CONTROL NO:

CUMBRIA POLICE AND CRIME COMMISSIONER

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Risk Score:	Impact	Likelihood
5	Very High	Very High > 90% probability
4	High	High 65% > 90% probability
3	Medium	Medium 20% > 65% probability
2	Low	Low 5% > 20% probability
1	Very Low	Very Low < 5% probability

	Unmitigated Score			Mitigated Score				Actions				
Risk Description	**Impact**	**Likelihood**	**Risk Score**	**Impact**	**Likelihood**	**Risk Score**	**Risk Owner & Mitigation Strategy (Avoid, reduce, transfer, accept)**	**Actions Already Taken to Mitigate the Risk**	**Outstanding Risk Mitigation Actions**	**Response Action or Management Approach to be Taken if Risk Occurs**	**Action Owner(s)**	**Review Date**
R6 - Consultation / Engagement												
There is a risk that the Office of Public Engagement doesn't deliver in line with its agreed strategy and this negatively impacts on the effectiveness of the OPCC and the reputation / public perception of the OPCC and the Commissioner this includes (community engagement, communications, complaints/standards) There is a risk that the OPCC may not have sufficient capability and capacity to deal with a major incident.	4	3	**12**	4	2	**8**	Communication and Media Executive (Avoid)	A Community Engagement Strategy is reviewed on an annual basis. The strategy encompasses consultation to gain public perception on such areas as local policing priorities. It includes a media strategy. The assistance of the Constabulary's Community Advisors' Group and external agencies may be used to ascertain how best to engage and communicate with some ethnic groups. Consultation surveys are conducted in the summer and autumn of each year seeking public views on policing priorities.		There is a comprehensive Office of Public Engagement strategy that covers all of the relevant areas of Communications / Community Engagement, Complaints / Standards with key deliverables over a rolling program of the next year and the following 3 years. This is supported by weekly updates to Exec Board on media and quarterly complaint / Standard and community engagement reports as well.	Communication & Media Executive	Mar-14
There is a risk of judicial challenge which may result in a decision being over-turned with consequent financial implications if the PCC fails to consult appropriately or fails to take into account consultation responses when decision making.	4	3	**12**	3	2	**6**	Communication and Media Executive (Avoid)	Consultation processes are used to support all decisions with service user implications and final decisions take these into account. When required Legal advice is sought on consultation processes.		Legal and communications advice to manage the risk.	Community Engagement Manager	Mar-14
Risk of failure to comply with legislation and regulations in respect of requirements for statutory reports, publications and information.	4	2	**8**	4	1	**4**	Comms and Media Executive (Reduce)	Communications & Engagement Executive esnures that the statutory publication requirements of the annual report and Police and Crime Plan are met and kept under review. Post of Governance Manager ensures requirements in respect of transparency/published informtion is kept under review and met through the PCC website. Individual officers responsible for ensuring any published documents within their area of responsibility meet statutory requirements. Subscriptions to professional bodies ensure relevant guidance is recieved on the requirements.		Take immediate action to provide the required information.Review of systems and processes to determine the reasons for failing to meet requirements.	Governance Manager	Mar-14

JOINT AUDIT & STANDARDS COMMITTEE RISK REGISTER **DATE: 07/02/2013** **VERSION CONTROL NO: 01 / 2013**

Risk Mitigation Strategies:

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Reduce : Reduce the likelihood and/or impact of the risk
Transfer : Outsource, use contractors or insure against things going wrong
Accept : The risk is tolerable/accepted

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1	Very Low	Very Low	< 5% probability

		Unmitigated Score			Mitigated Score			Risk Owner		
Risk No.	Risk Description	Impact	Likelihood	Risk Score	Impact	Likelihood	Risk Score	Committee Member - Risk Owner	Frequency of Assessment & Proposed Cycle	Date of Next Review
1	Organisational recognition of the Joint Audit & Standards Committee	4	4	**16**	3	3	**9**			March 2014
2	Effective Knowledge and Ability to Challenge	4	3	**12**	3	2	**6**			March 2014
3	Ability to Challenge without being perceived as being too negative or critical	4	4	**16**	3	2	**6**			March 2014
4	Committee Remit remains focused and within Terms of Reference	3	3	**9**	2	2	**4**			March 2014
5	Ability to be aware of issues	4	4	**16**	3	3	**9**			March 2014
6	Ensure Standards Issues are focused upon	4	3	**12**	3	2	**6**			March 2014
7	Sufficient capacity to deal with scope of committee business	4	4	**16**	3	2	**6**			March 2014
8	Awareness of OPCC & Constabulary Strategic Risk Registers	4	3	**12**	3	2	**6**			March 2014
9	Awareness of Reserves and Balances	4	3	**12**	3	2	**6**			March 2014

(Colour coding is used to see at a glance the grading of risks)

Scores	
15 - 25	Quarterly Reviews
10 - 14	Half Yearly Reviews
9 or less	Annual Reviews

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Risk Description	**Impact**	**Likelihood**	**Risk Score**	**Impact**	**Likelihood**	**Risk Score**	**Risk Owner & Mitigation Strategy (Avoid, reduce, transfer, accept)**	**Actions Already Taken to Mitigate the Risk**	**Further Risk Mitigation Actions**	**Response Action or Management Approach to be Taken if Risk Occurs**	**Action Owner(s)**	**Review Date**
Risk No 1												
There is a risk that the Audit and Standards Committee is not sufficiently active or integral to the governance of the OPCC and the Force because of its limited capacity.	4	4	**16**	3	3	**9**		The Chairman has asked to review the number of meetings held by Commiteees in comparable OPCCs.	Chief Constable & PCC to be invited to (at least one) meeting per annum of the Audit Committee to discuss its work and importance The Committee could use its authority to call individual officers to account when it is not satisfied with their actions/inactions. The Committee's annual report should be widely circulated so that its work is made known to individuals in the organisations.	Agree measures with the two Finance Officers to gain the respect of their organisations.		
Risk No 2												
There is a risk that Committee members do not have the access to sufficient information to challenge effectively.	4	3	**12**	3	2	**6**		Members are responsible for keeping up to dates with significant issues in the public domain and will receive a briefing from Officers on issues that may impact on the work of the Commitee.	Training seminars will be provided to the members on areas where they feel their knowledge needs support. A work programme for the year has been agreed and will highlight to members any areas where they will require specific seminars.	If members identify an area where their skills and knowledge do not cover the topic suitable training will be provided.		
Risk No 3												
There is a risk that the Committee may be seen as too critical or negative in its challenge.	4	4	**16**	3	2	**6**		The Commissioner & Chief Constable are aware of the purpose of the joint committee and the scrutiny role it plays in overseeing the work that they do.	Committee chair to have regular meetings with Stakeholders to ensure acceptance & understanding of the committee's role	The Committee should discuss with Finance/other officers any concerns raised by them over negativity and work together to resolve these.		
Risk No 4												
There is a risk that the Committee's effectiveness is constrained by its terms of reference.	3	3	**9**	2	2	**4**		Being a new committee the members will be aware of the terms of reference and using this risk register will assess their own performance. An initial training session and further support will enable the members to be clear on their focus.	Discussions can be held with the OPCC and/or Constabulary Chief Finance Officer to raise such concerns and agree how they can be resolved. The Committee's work programme will provide a framework for it to focus its activities.	If there is a genuine need to widen the Committee's brief, this should be addressed through a review of its terms of reference.		
Risk No 5												

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Risk Description	**Impact**	**Likelihood**	**Risk Score**	**Impact**	**Likelihood**	**Risk Score**	**Risk Owner & Mitigation Strategy (Avoid, reduce, transfer, accept)**	**Actions Already Taken to Mitigate the Risk**	**Further Risk Mitigation Actions**	**Response Action or Management Approach to be Taken if Risk Occurs**	**Action Owner(s)**	**Review Date**
There is a risk that the Committee does not have sufficient access to information to assess the implication of issues.	4	4	**16**	3	3	**9**		With regard to audit the committee will also be able to rely upon the internal and external auditors to highlight any issues.	Chair/ committee to liase with other similar audit committees to disuss common issues Committee to receive regular updates on important/strategic issues according to a set plan agreed with all stakeholders Committee members are expected to raise issues identified from their own knowledge/experience.			
Risk No 6												
There is a risk that the committee does not focus on the Standards / HR side of their remit in relation to the OPCC.	4	3	**12**	3	2	**6**		The purpose of giving the committee this function is to have an `appeal' process available to staff within the OPCC should it be required.	Guidance and support would be given to the committee should they be required to undertake this function. General background training should be provided to describe the basic principles.	Officers may need to provide this guidance/support at short notice in the event of an appeal.		
Risk No 7												
There is a risk that the committee may not have sufficient capacity to deal with the scope of their business	4	4	**16**	3	2	**6**		The annual work programme sets out what the committee will scrutinise with regard to audit.	Any identified issues or areas of concern can be tasked to the auditors to further investigate on the committee's behalf.			
Risk No 8												
There is a risk that the committee is not aware of the OPCC and Constabulary strategic risks	4	3	**12**	3	2	**6**		The committee will review the OPCC and Constabulary's strategic risk registers on a quarterly basis.	The committee will have the opportunity to comment upon the PCC's annual risk management strategy at its meeting in March 2014			
Risk No 9												
There is a risk that the committee is not made fully aware of any issues regarding reserves and balances.	4	3	**12**	3	2	**6**		The External Auditors will undertake an audit of the OPCC & Constabulary's accounts and provide a Letter of Management Representation on their findings. The Police & Crime Panel will monitor the PCC's spending and will highlight any issues as appropriate.	Force/OPCC to report to each committee meeting on issues pertinent to the subject The Committee should be prepared to voice any concerns and/or support the external auditors/Panel if it feels that the level of reserves and balances represents an unacceptable risk to the service.	The Committee should be able to have open and frankdiscussions with the Chief Finance Officers regarding any concerns.		