

**LINCOLNSHIRE POLICE AUTHORITY
AUDIT, RISK & GOVERNANCE COMMITTEE
19TH NOVEMBER 2009**

SUBJECT		ANNUAL GOVERNANCE REPORT 2008/09
REPORT BY	TREASURER AND CHIEF CONSTABLE	
CONTACT OFFICER	JULIE FLINT, TREASURER TELEPHONE: (01522) 558073 TONY TOMLINSON, HEAD OF FINANCE TELEPHONE: (01522) 558187	
SUMMARY AND PURPOSE OF REPORT		
<p>The Audit Commission made 5 recommendations to the Authority as part of their review of the 2008/09 accounts. Any changes need to be promptly embedded into our working practices so that we can reflect new practices in the 2009/10 accounts.</p>		
RECOMMENDATIONS	<p>That the Committee:</p> <ul style="list-style-type: none"> • approves new procedures for capital accounting; • approves new procedures for management of loans; • approves new assumptions for the calculation of bad debt provisions; • notes the work being done to address other recommendations. 	

A. SUPPORTING INFORMATION

1. INTRODUCTION

1.1 There were 5 recommendations in the Audit Commission's Annual Governance Report on the 2008/09 accounts:

- 1) review capital accounting procedures;
- 2) the Authority should strengthen the loans system;
- 3) the data protection creditor should be investigated for continuing validity;
- 4) the bad debt provision should be reviewed;
- 5) the asset register should be reviewed to confirm that all remaining assets are owned.

These are considered in the following paragraphs.

2. REVIEW CAPITAL ACCOUNTING PROCEDURES

2.1 The following is an extract from the corporate governance report summarising the issue:

Misstatement	Recommendation	Response
Assets values were assessed at the 31 March 2009 by the valuer as part of the impairment review. The Authority has made amendments to the impairment and depreciation calculations. However, the figures in the amended accounts show that the impairment has been calculated against the valuer's amounts and then depreciation has been applied.	Depreciation should be applied prior to calculating the impairment amount.	The method to be adopted by Authorities in calculating its depreciation is not specified in the SORP. The Authority has looked at practice elsewhere in the East Midlands Region where the approach is mixed with half of the other Authority's following a similar approach to Lincolnshire. The issue represents a major change to the way the accounts are constructed; it is considered that a change of this nature should be examined in the light of all available information during the next financial year and a view taken by members on the process to be adopted. Proposal: that the allocation is not undertaken in 2008/09 accounts but that a review is undertaken for the 2009/10 accounts.

2.2 There is no clear guidance available to practitioners for the order of transactions in capital accounting. The traditional approach has been:

Capital values brought forward	Brought forward from previous years' accounts
Revalue as at 1 st April	xxx
Add additions	xxx
Remove disposals	xxx
Depreciate assets	xxx
Consider any impairment issues	xxx
Final total	Closing figure for inclusion in the new year accounts

This means that depreciation happens after valuation, and the year end figure will not be the same as the valuers' report.

2.3 In recent years, the prominence of the impairment review has increased. (The impairment review is undertaken to ensure that the value of an asset held in the

- 2.4 Consequently, a new approach is being proposed for the calculation of land and buildings values in the accounts.

Proposal

- 2.5 In years when there is a full revaluation of assets (every five years), the standard approach will be followed as in Table 1. In all other years, impairment and revaluation will be combined into one final stage, so the process will be as set out in Table 2 below.

Table 2 –capital accounting when there is no full revaluation of assets	
Capital values brought forward	Brought forward from previous years' accounts
Add additions	xxx
Remove disposals	xxx
Depreciate assets	xxx
Revaluation, to include consideration of impairment	xxx
Final total	Closing figure for inclusion in the new year accounts

- 2.6 Some consequences of this approach are:

- In most years, the figures shown in the accounts will match the figures quoted in the valuers' report.
- The valuer will need to consciously include the impact of additions, disposals and depreciation in his valuation. This will be raised with him in our written instructions.
- When there is a quinquennial revaluation, we may need to pay for additional work to consider impairment issues as at 31st March.

Compliance with guidance

- 2.7 Some key guidance notes are shown below. The SORP guidance notes advocates use of a 1st April valuation date at paragraph C81. However, the date of 1st April is only specified in the guidance notes and not the SORP itself, so valuing at 31 March still complies with the SORP, so long as valuations are carried out within the 5 year period specified in SORP 3.121.

Extract from the SORP

- 2.8 3.121 When an asset is included in the Balance Sheet at current value, it should be formally revalued at intervals of not more than five years and the revised amount should be included in the Balance Sheet.

3.122 A full valuation may be performed on a rolling basis to cover all the properties over a five year cycle.

3.123 A full valuation of a property is conducted by either a qualified external valuer or a qualified internal valuer. A qualified valuer is a person conducting the valuations who holds a recognised and relevant professional qualification and having recent post qualification experience, and sufficient knowledge of the state of the market, in the location and category of the tangible fixed asset being value.

SORP guidance notes, page 550, paragraph C81

The valuer is required to provide the following services:

To carry out a valuation of all the authority’s material operational and non operational property assets, for inclusion in the Balance Sheet. This will include all property assets which have a value greater then the de minimis level determined by the authority. The effective date for all valuations will be 1 April of the accounting year:

- To estimate the remaining useful life of the properties valued
- To apportion land and building values for depreciation purposes.

3. THE LOANS SYSTEM

3.1 The following is an extract from the corporate governance report summarising the issue:

Weakness	Recommendation	Response
<p>We have identified a number of weaknesses within the loans system which need to be addressed including</p> <ul style="list-style-type: none"> • authorisation arrangements for initiating new loans • linking loans to the capital programme; and • the frequency of reconciliation between the ledger and the loans schedule. 	<p>The Authority needs to ensure that action is taken to address the weaknesses in the loans system</p>	<ul style="list-style-type: none"> • The processes for the authorisation of new loans will be reviewed and documentation designed. • The linking of loans to the capital programme will be investigated, loans are taken as total amounts, and it would not be possible or efficient to raise specific loans for specific schemes. • It is proposed that the loans schedule will be reconciled on a quarterly basis.

Responses to recommendations:

- In future, loans will be approved by the Treasurer, with supporting working papers available from Finance.
- Having considered the linking of loans to the Capital Programme, it is considered that the initial comments made to Finance and Performance Committee are valid and no further action will be taken. This proposal is rejected as being of no benefit.
- There should be a regular reconciliation of the carrying values for loans on the balance sheet with statements from the PWLB. This check now happens quarterly as part of our validation of the finance ledger. It was completed for the first time in September.

4. DATA PROTECTION PAYMENTS

4.1 The following is an extract from the corporate governance report summarising the issue:

Issue or Risk	Recommendation	Response
Data protection payments. There is a creditor of £28k relating to application monies from the public for data protection queries. No breakdown could be provided or information on the number of cases outstanding. Uncertainty remains over the validity of this amount.	The data protection creditor should be investigated for continuing validity.	This balance has arisen as the Force collects this income on behalf of the NPIA. Due to the delays in billing from the organisation, the Force has still not received the final invoices in respect of 2008/09. Once this has been agreed the remaining balance will be recorded in the Income and Expenditure account for 2009/10.

4.2 We are waiting for information which will confirm the total number of data protection requests during 2008/09. This will clarify the correct balance sheet value. Any other transactions will be transferred to the Income & Expenditure Account.

5. BAD DEBT PROVISION

5.1 The following is an extract from the corporate governance report summarising the issue:

Issue or Risk	Recommendation	Response
The methodology for calculating the bad debt provision appears to give the potential for an understatement. The percentage provided for is:	Bad debt provision levels for all categories of debt over 30 days should be reconsidered and the bad debt provision increased accordingly.	It is important in reviewing this recommendation that the nature of the Authority's debts and the amounts involved are taken into account. The majority of the Authority's

Issue or Risk	Recommendation	Response
<ul style="list-style-type: none"> • 0% for debts 0-30 days (reasonable) • 0% for debts 31-180 days (potentially understated) • 15% for debts 181 – 365 days (potentially understated) • 33% for debts 366+ days (clearly understated) <p>In our view there is considerable uncertainty as to the collectability of debts greater than 1 year. Common practice is to apply a bad debt level of 90% or more to such balances.</p>		<p>debtors relate to recharges to other Police Authorities and Government Departments, often these can take many months to settle while the relevant person dealing with the issue is traced. This can result in some debts being outstanding for a significant period but with a high expectation of collection. At 31st March 2009 over 365 days debt was £40k the Authority had provided for 100% of two debts totalling £12k, and 33% of other debts in this category. Similarly in the category up to 365 days the amount outstanding was £40k. A review of the provisions to the level suggested would have required an overall increase in the provision of £16k in 2008/09. These amounts will be reviewed as part of the closedown process for 2009/10.</p>

5.2 The carrying value of bad debts will be calculated in the 2009/10 accounts as recommended by the Authority's External Auditors, with a 90% allowance for debts over one year old. An appendix is attached showing the impact of the change to our accounts. In anticipation, £15k has already been added to the bad debt provision in our 2009/10 balance sheet.

6. ASSET REGISTER

6.1 The following is an extract from the corporate governance report summarising the issue:

Issue or Risk	Recommendation	Response
<p>An asset of £147.2k has been removed from the fixed assets register as it is leased, not owned by the Authority.</p>	<p>The Authority should review the asset register to confirm that it owns all remaining assets.</p>	<p>The register has been reviewed and no further assets identified.</p>

The following actions have been taken:

- Land and buildings have been checked against the valuer's report. Further, Finance will ensure that the ownership of all our land and buildings are confirmed by reference to the deeds before the 2009/10 accounts are prepared.
- Vehicles are cross referenced to Fleet records to ensure ownership and condition as part of the final accounts closedown process.
- ICT disposals will be regularly reviewed to highlight any possible changes to the ICT section of the asset register.

B. FINANCIAL CONSIDERATIONS

There will be additional costs for valuer's impairment reviews when the 5 yearly full valuation is done. These will be contained within the revenue budget.

C. LEGAL AND HUMAN RIGHTS CONSIDERATIONS

None

D. PERSONNEL, EQUAL OPPORTUNITIES AND DIVERSITY ISSUES

(including any impact or issues relating to Children and Young People under the Every Child Matters (ECM) framework.)

None

E. RISK MANAGEMENT

There are risks of financial mis-statement in the accounts, affecting the data provided to the public and our use of resources assessment by the Audit Commission.

F. REVIEW ARRANGEMENTS

The 2009/10 draft accounts will be available for review at the June meeting of this committee in 2010.

G. LIST OF BACKGROUND PAPERS

Date	Description	File
September 2009	Annual Governance Report to Lincolnshire Police Authority, part of the audit of the 2008/09 Accounts.	