Independent Police Compliants Commission Accounts 2005-2006

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CORRECTION

Please note that on page 9, the columns headed CETV at 31 March have been transposed. The first of these columns should read 31 March 2005 and 31 March 2006.

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Foreword

Introduction

This Statement of Accounts has been prepared and published by the Independent Police Complaints Commission ('IPCC'). The Accounts have been prepared in accordance with the Accounts Direction given by the Secretary of State, with the consent of the Treasury, in accordance with paragraph 17(1) of Schedule 2 to the Police Reform Act 2002 (the Act). These Accounts have been prepared in accordance with the guidance set out in the Government Financial Reporting Manual.

Nature of IPCC's business and its aims, objectives and activities

The purpose of the IPCC is to ensure that suitable arrangements are in place for dealing with complaints or allegations of misconduct against any person serving with the police in England or Wales. In doing so, the IPCC seeks to increase public confidence by demonstrating the independence, accountability and integrity of the complaints system and so contribute to the effectiveness of the police service as a whole. For further details of the IPCC's aim, objectives and activities please read the IPCC Annual Report for the year ended 31 March 2006 which will be published in autumn 2006 and the Management Commentary which follows.

History

The IPCC was created by the Police Reform Act 2002 (the Act) and was established on 1 April 2003 as an Executive Non-Departmental Public Body (NDPB). It became operational on 1 April 2004. The sponsoring department for the IPCC is the Home Office and the sponsoring unit is the Police Leadership and Powers Unit.

The IPCC's 17 Commissioners are appointed by the Home Secretary and are responsible for the governance of the IPCC as a whole, guardianship of the complaints system, and final determination of individual cases. The Commissioners making such decisions are independent of the police, interest groups, political parties and Government.

The IPCC executive functions are led by a Chief Executive supported by a senior management team based in locations across England and Wales. The Chief Executive is accountable to the Commissioners, and has been appointed as Accounting Officer for the IPCC by the Departmental Accounting Officer.

Commission members

Commissioners are appointed under the Schedule 2 (section 9) of the Police Reform Act 2002, for a term not exceeding five years. The Commissioners who served during 2005-2006 were as follows

Nick Hardwick	Chair
John Wadham	Deputy Chair
Ian Bynoe	
John Crawley	
Tom Davies	
Mike Franklin	
Gary Garland	
Deborah Glass	
Len Jackson	
Nicholas Long	
Laurence Lustgarten	
Naseem Malik	
Rebecca Marsh	
Mehmuda Mian Pritchard	
David Petch	
Amerdeep Somal	
Nicola Williams	

Details of Commissioners' remuneration can be found in the Remuneration Report that follows below.

The Commissioners' disclosures in respect of other interests are publicly available and may be obtained in writing from the Commission Secretary at 90 High Holborn, London, WC1V 6BH.

Corporate governance and risk management

The IPCC is committed to ensuring a high standard of corporate governance. The Commission has responsibility for defining strategy and determining resources allocations to ensure delivery of IPCC objectives. In turn the Commission has a corporate structure with committees that have clear terms of reference.

A risk management framework has been embedded within IPCC which reports to the Audit Committee and to the Commission. Significant risks are identified and assessed then actively managed by a series of mitigation and risk reduction activities.

Audit Committee

During the financial year ending 31 March 2006 the Audit Committee comprised two independent members: Simon Dow (Group Chief Executive of Guinness Trust) and John Holden (formerly the Chief Executive of Companies House and Registrar of Companies) and two Commissioners (David Petch and Tom Davies). The National Audit Office, Internal Auditors, Chief Executive and Director of Corporate Services attend by invitation.

The Audit Committee reports to the Commission. An independent member, Simon Dow, chairs the Committee. The role of the Committee is to oversee the IPCC's systems and processes of finance, corporate governance, risk management, accountability and complaints against the organisation.

Diversity

Diversity is a core value of IPCC. We have formed a Diversity Committee made up of Commissioners and staff from across the organisation which is led by the Chair of the organisation. The Committee steers the delivery of our diversity objectives overall with the benefit of insights and on the ground experience from staff based in different regions, doing different jobs, and with different backgrounds. During the year Commissioners, managers and staff were required to undertake training on diversity.

Employment policies

As part of our commitment to diversity we have put in place employment policies to create an environment in which all staff can give of their best, and can contribute to their own and the organisation's success.

During the year we monitored recruitment, training, job satisfaction and staff turnover and provided regular reports to senior managers and Commissioners.

The IPCC involves staff in decisions on health, safety and welfare. The Public and Commercial Services Union negotiates on behalf of staff. In addition a Staff Council consisting of both staff and trade union representatives is in place for the purpose of communication and consultation.

The IPCC gives full and fair consideration to applications for employment from people with disabilities, having regard to the nature of the employment. The IPCC is similarly committed to enabling any members of staff who may become disabled to continue their employment.

Health and safety

The IPCC recognises and accepts its legal responsibilities in relation to health, safety and the welfare of its employees and all people on its premises and has a Health and Safety Committee dealing with these issues, which is chaired by a Regional Director. The IPCC complies with the Health and Safety at Work Act 1974 and all other legislation as appropriate.

Creditor payment policy and performance

The IPCC abides by the Department of Trade and Industry 'Better Payment Practice Code' and in particular aims to pay undisputed invoices in accordance with contract terms. During the year to 31 March 2006 89 per cent (78 per cent in 2004-2005) were paid in accordance with contract terms. No interest was paid in respect of the Late Payment of Commercial Debts (Interest) Act 1998.

Research and development

During the year the IPCC published findings from two studies. The first study examined public confidence in the complaints system and outlined how particular social groups tended to be less confident in complaining about the police, more sceptical about whether complaining would make a difference and less aware of the complaints system. These findings have been fed into developing work around communications with complainants.

The second study concerned the provision of figures on deaths during or following police contact. This high profile piece of work showed a rise in deaths compared to previous years, which was likely to be due to better reporting by forces. The IPCC will continue to publish these figures and monitor trends.

Charitable donations

No donations to charity were made by the IPCC during the year. Occasionally Commissioners or staff receive gifts arising from their normal duties and in these circumstances the gifts or an equivalent value are donated to either Oxfam or Macmillan Cancer Relief. Details are recorded in a register which is available to the public and may be obtained in writing from the Commission Secretary at 90 High Holborn, London, WC1V 6BH.

Going concern

Grant in Aid for 2006-2007 for the IPCC has already been included in our sponsoring department's Estimate approved by Parliament, and there is no reason to believe that the department's future sponsorship and future Parliamentary approval will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Post Balance Sheet events

No post balance sheet events have been noted as significant in terms of their impact on operational activities or as having a significant impact for balances contained in the accounts. In June 2006 the Chief Executive Officer, Susan Atkins, resigned from IPCC to take an appointment at the Home Office.

Auditors

Arrangements for external audit are provided under Schedule 2 paragraph 17(1) of the Act which requires the Comptroller and Auditor General to examine, certify and report on the statement of accounts, and to lay copies of it together with his report before each House of Parliament. The fees for these services for 2005-2006 are estimated at £38,000 (£38,000 in 2004-2005). The auditors have received no remuneration for non-audit work.

The Internal Audit services are provided by the Home Office Audit and Assurance Unit.

The Accounting Officer has taken all steps to ensure that he is aware of any relevant audit information and to ensure that the IPCC auditors are aware of that information. As far as the Accounting Officer is aware, there is no relevant internal audit information of which the IPCC auditors are unaware.

Management Commentary

Financial results

The activities of IPCC are mainly funded by grant in aid from the Home Office through the Home Office Main Estimate (Resource RfR1, Subhead Y:3). In 2005-2006 the IPCC had a resource allocation from the Home Office of £28.2 million. The IPCC also received other income which included £0.7 million for the funding of expenditure on a HMRC investigation and the costs of building the infrastructure for IPCC to investigate complaints against HMRC as provided for under section 28 of the Commissioners for Revenue and Customs Act 2005.

During the year IPCC resource expenditure net of the income from HMRC and other sources was £29.3 million resulting in a £1.1 million overspend. The Home Office were kept informed of our expenditure at all times and approved further funding of £1 million in recognition of our exceptional caseload during 2005-2006. This was exceeded due to higher than expected losses on revaluation of assets.

The IPCC also received from the Home Office a capital budget allocation of £1.5 million. Actual capital expenditure in the year was £1.5 million in respect of IT hardware, software and IT licences, and leasehold property of which £1.4 million was funded by the Home Office and the remainder funded by HMRC.

The reported operating deficit on ordinary activities of £0.8 million (£1.1 million 2004-2005) mainly arises from the loss on revaluation of assets while the reported overall surplus of £1.8 million (£0.8 million 2004-2005) arises because cash has been drawn to reduce creditors.

Effective and efficient investigations

One of the key tasks of the IPCC is to conduct investigations in a timely and efficient way, minimising the use of police resources and satisfying the demands of thoroughness, fairness and independence. For the year 2005-2006, we set ourselves three key targets relating to the numbers of investigations of each type that we intended to commence during the year. For independent investigations, we set a target of 60 and commenced 52; for managed investigations we set a target of 125 and commenced 188; and for supervised investigations we set a target of 600 and started 562.

While there was approximately a 13 per cent shortfall in independent investigations, the numbers of managed investigations started represents an over-achievement of 50 per cent. The combined total of 240 managed and independent investigations against a target of 185 is a positive result.

Investigations begun during the year included the inquiry into the shooting of Jean Charles de Menezes in London in July 2005.

Working closer to the community we serve

Each region now has an IPCC office dedicated to provide a complaints system that meets local needs and offers opportunities for Commissioners, investigators and casework managers to work closely with partner agencies, police forces and community groups.

Commissioners and staff at regional offices have put considerable effort into developing closer working relationships with particular groups in the community. The principal vehicle for this has been both one to one meetings with local groups and stakeholder events in the form of conferences, seminars and workshops e.g. regional Muslim forums to both listen to people's concerns and explain the role of the IPCC.

Increasing public confidence

As part of the IPCC's guardianship function we have produced a number of publications informing the public about the complaints system including a leaflet explaining the process of local resolution of less serious complaints and further material created for police officers and police staff.

The IPCC's general duty under the Police Reform Act 2002 is to increase confidence in the police complaints system in England and Wales and, in so doing, to contribute to increasing confidence in policing as a whole. This is the basis of the IPCC's guardianship function.

Guardianship includes

a Setting, monitoring, inspecting and reviewing standards for the operation of the police complaints system.

b Promoting confidence in the complaints system as a whole among the police and the public.

c Ensuring the accessibility of the complaints system.

d Promoting policing excellence by drawing out and feeding back learning.

A central part of our guardianship role has been to ensure that the lessons learned from our investigations are fed back into day-to-day policing. A priority in this work is the means to ensure that lessons deriving from investigations into fatalities and other independent investigations are effectively translated into sound operational practice. The IPCC is working with policing organisations nationally to develop a structured learning the lessons system.

Raising awareness and increasing access

We publicised a wide range of cases during the year via the national, regional and specialist media. We also began a project to raise the awareness of the complaints system among young Asian men in Dewsbury, West Yorkshire. With our website attracting an average 300,000 page views a month, we commissioned detailed accessibility testing of the site to identify improvements for visually impaired viewers.

Working with the police to improve the complaints system

During the year we have continued to work closely with the police bodies, including the Association of Chief Police Officers (ACPO), and the Association of Police Authorities (APA) with the aim of improving the complaints system and building on shared objectives. The APA is one of the IPCC's key policing stakeholders and represented on the Advisory Board. The IPCC's strategy for working with police authorities was finalised at the end of 2005-2006 and has a number of aims: to help the IPCC and the police fulfil shared responsibilities; to increase public confidence in the police; to seek greater accountability of the police at local level; and to share responsibility in the oversight of the police.

Business focus for the future

From 1 April 2006, the IPCC's jurisdiction was extended to cover complaints concerning the exercise of police-type powers within HMRC and the Serious Organised Crime Agency (SOCA). In the second half of 2006-2007, the IPCC expects to take on the responsibility for complaints and misconduct issues related to the arrest functions of the Immigration and Nationality Directorate (Enforcement and Removals) – IND (E&R).

The IPCC will bring skills and learning from our experience with the police to our work with HM Revenue and Customs, SOCA and IND (E&R). Our other objectives for next year are to develop a skilled, diverse and professional workforce and improve our performance; to increase awareness, accessibility and transparency of the complaints system in communities where confidence in the police is lowest; and to further develop a system for the IPCC and police to share learning and good practice and improve performance reporting.

Barry Simpson 18 July 2006
Acting Chief Executive Officer and Accounting Officer

Remuneration Report

The Independent Police Complaints Commission aims to ensure that remuneration packages offered are competitive and designed to attract, retain and motivate senior executives and other employees. In setting remuneration the Commission works within the Government policy guidelines for public sector pay.

Remuneration policy

The Chair is appointed by the Crown. The Commissioners and the first Chief Executive are appointments by the Secretary of State. Subsequent Chief Executives will be appointed by the Commission subject to approval of the Secretary of State. All these appointments are made in accordance with the Code of Practice for public appointments issued by the Commissioner for Public Appointments.

The Secretary of State reviews the Chair and Commissioners' salaries annually. The Commission has established a Remuneration Committee that is responsible for considering, and making recommendations to the Secretary of State, on the base salary and benefits of the Chief Executive, and for determining the specific remuneration and other employment benefits for the other directors. The membership of the Remuneration Committee comprises the Commission Deputy Chair, four Commissioners, the Chief Executive and the Director of Corporate Services.

Subject to approval by the Home Office of the IPCC overall remuneration strategy the Commission has delegated to the senior executive team the determination of the remuneration packages and other employment benefits of all other IPCC employees. The IPCC has established a job grading structure with salary scales for each grade. Job evaluation is undertaken to ensure that different roles within IPCC are fairly positioned in the job grading structure. Annual appraisals are conducted with each employee to determine performance and areas where additional training is required. The base salary for each employee is determined by taking into account individual performance and the relevant salary scales for the job.

Service contracts

The Chair is a public appointee for a period of five years, which is terminable by the Secretary of State for the Home Department with no notice period. Commissioners are usually appointed for a fixed period of five years.

The Secretary of State appointed the IPCC's first Chief Executive for a fixed period of five years. This contract was renewable subject to agreement. Early termination, other than for misconduct, would have resulted in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

The Chief Executive appoints directors. Their contracts have no fixed period and are terminable on three months notice by the IPCC.

Bonuses

The Chair and Commissioners do not receive a bonus. A performance related bonus is payable to the Chief Executive, based on specific quantified targets, which is agreed with the Remuneration Committee in consultation with the Chair. The Chief Executive's maximum bonus is currently 20 per cent of base salary.

The senior executives are also eligible for performance bonuses and the Remuneration Committee approves these. The maximum bonus for senior executives is currently 20 per cent of base salary.

Pensions

The Chair, Commissioners and all staff are eligible for membership of the Civil Service Pension scheme. Certain IPCC Commissioners who served as Members with the Police Complaints Authority participate in a Broadly by Analogy pension scheme as an alternative to membership of the Civil Service Pension scheme.

Civil Service pensions

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but IPCC is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2005. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation www.civilservice-pensions.gov.uk

For 2005-2006, employers' contributions were payable to the PCSPS at one of four rates in the range 16.2 to 24.6 per cent (2004-2005: 12 to 18.5 per cent) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. Rates will increase from 2006-2007. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, participants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5 per cent of pensionable earnings for classic and 3.5 per cent for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between three per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee from a selection of approved products. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of three per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

Further details about the Civil Service pension arrangements can be found at the website www.civilservice-pensions.gov.uk

Broadly by Analogy pensions

A Broadly by Analogy pension arrangement entitles the recipient to benefits similar to the PCSPS classic scheme described above and obliges the IPCC and the member to make contributions in line with the PCSPS. The IPCC is responsible for funding future pension benefits, and retaining pension contributions. As such, the IPCC recognises a liability in this respect calculated by the Government Actuary. Further details of these pensions are disclosed in the Accounts.

Senior staff disclosures

Details of the remuneration and pension of the Chief Executive and Commissioners are provided at pages 9 and 10.

Barry Simpson 18 July 2006
Acting Chief Executive Officer and Accounting Officer

Remuneration and Pensions for the Commissioners and the Chief Executive

The following sections provide details of the remuneration and pension interests of the Commissioners and Chief Executive.

	Start date	Salary 2005-2006 (as defined) £000	Real increase in pension and related lump sum at age 60 Bands of £2,500 £000	Total accrued pension at age 60 at 31 March 2006 and related lump sum Bands of £2,500 £000	CETV at 31 March 2006 £000	CETV at 31 March 2005 £000	Real increase in CETV £000	Salary 2004-2005 (as defined £000
Nick Hardwick (Chair)	3 February 2003	100-105	0-2.5 Nil lump sum	5-7.5 Nil lump sum	42	82	23	100-105
Susan Atkins (Chief Executive)	1 April 2003	100-105	0-2.5 plus 5-7.5 lump sum	32.5-35 plus 97.5-100 lump sum	526	610	35	90-95
John Wadham (Deputy Chair)	30 June 2003	75-80	0-2.5 Nil lump sum	12.5-15 Nil lump sum	176	252	31	70-75
Amerdeep Somal	1 September 2003	65-70	0-2.5 Nil lump sum	2.5-5 Nil lump sum	14	33	10	65-70
Gary Garland	1 October 2003	65-70	0-2.5 plus Nil lump sum	15-17.5 plus Nil lump sum	149	210	13	65-70
John Crawley	1 January 2004	65-70	0-2.5 Nil lump sum	2.5-5 Nil lump sum	20	44	17	65-70
Laurence Lustgarten	1 September 2003	65-70	0-2.5 Nil lump sum	32.5-35 Nil lump sum	589	682	19	65-70
Len Jackson	1 October 2003	65 - 70	0-2.5 Nil lump sum	5-7.5 Nil lump sum	84	124	20	65-70
Mike Franklin	1 September 2003	70-75	0-2.5 plus 2.5-5 lump sum	2.5-5 plus 12.5-15 lump sum	46	76	13	65-70
Naseem Malik	1 October 2003	70-75	10-12.5 Nil lump sum	10-12.5 Nil lump sum	13	136	115	65-70
Nicholas Long	1 September 2003	65-70	0-2.5 Nil lump sum	2.5-5 Nil lump sum	26	53	18	65-70
Rebecca Marsh	15 September 03	65-70	0-2.5 Nil lump sum	2.5-5 Nil lump sum	15	35	11	65-70
Tom Davies	1 October 2003	70-75	0-2.5 Nil lump sum	5-7.5 Nil lump sum	74	113	21	70-75
David Petch	1 April 2004	70-75	0-2.5 Nil lump sum	5-7.5 Nil lump sum	84	110	24	60-65
Deborah Glass	1 April 2004	70-75	0-2.5 plus 2.5-5 lump sum	2.5-5 plus 12.5-15 lump sum	56	77	17	60-65
Ian Bynoe	1 April 2004	65-70	0-2.5 Nil lump sum	12.5-15 Nil lump sum	229	274	27	65-70
Mehmuda Mian Pritchard	1 April 2004	70-75	0-2.5 plus 2.5-5 lump sum	5-7.5 plus 17.5-20 lump sum	81	105	17	60-65
Nicola Williams	1 April 2004	70-75	0-2.5 Nil lump sum	0-2.5 Nil lump sum	11	30	14	60-65

Salary

'Salary' includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

Benefits in Kind

No Commissioner received any benefits provided by IPCC that were treated by the Inland Revenue as a taxable emolument.

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-2004 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Please note that the factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Statement of the Commission's and the Accounting Officer's responsibilities for the Statement of Accounts

Under Schedule 2 paragraph 17(1) of the Police Reform Act 2002 the Independent Police Complaints Commission is required to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction issued by the Secretary of State. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the IPCC and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to

- observe the Accounts Direction issued by the Secretary of State, with the consent of the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

For the year under review the Accounting Officer for the Home Office had appointed the Chief Executive, Susan Atkins, as Accounting Officer of the IPCC. In July 2006 the Accounting Officer for the Home Office appointed Acting Chief Executive, Barry Simpson, as Accounting Officer of the IPCC.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the IPCC's assets, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in *Government Accounting*.

Statement on Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievements of the Independent Police Complaints Commission's policies, aims and objectives whilst safeguarding the public funds and assets under my control. This is in accord with the responsibilities assigned to me by the Home Office set out in the Financial Memorandum and those in Government Accounting.

The IPCC provides information to the sponsoring department, the Home Office, via a series of regular meetings. In particular, I discuss with the sponsoring unit, the Police Leadership and Powers Unit, the IPCC operational performance, financial management and risk during bilateral meetings arranged for that purpose, normally held bi-monthly.

The purpose of the system of internal control

The IPCC system of internal control is designed to manage risk to a reasonable level rather than to 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 ongoing process designed to identify and prioritise the risks to the achievement of the Commission'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 efficiently, effectively and economically. The system of internal control has been in place in the Commission for the year ended 31 March 2006 and up to the date of approval of the Statement of Accounts and accords with Treasury guidance.

The risk and control framework and capacity to handle risk

The IPCC risk and control framework extends throughout all work undertaken. The internal control framework includes formal procedures for receiving management information, delegation of duties and accountability, formal line management structures, and the segregation of duties where appropriate. Processes developed and applied during the year to manage risk include

- enhancement of the strategic risk register to show the risk management processes for achievement of business plan and corporate objectives;
- procedures for ensuring that aspects of risk management are embedded into directorate plans and reviewed regularly by senior management;
- formal reporting protocols that ensure that all reports to the Commission and subsidiary committees contain a risk and risk management report so ensuring that all formal reports address risk;
- procedures for raising Risk Exception Reports for the attention of the Senior Executive Team, who advise me of significant risks arising that require management; and
- regular meetings of Commissioners at which the strategic risk register is reviewed and progress against IPCC strategic plans are reviewed along with overall performance.

The IPCC has engaged the Home Office Audit and Assurance Unit, who operate in accordance with Government Internal Audit Standards, to provide an internal audit function. Their work is informed by an analysis of the risks to which the IPCC is exposed, and annual internal audit plans are based on this analysis. The annual plan for 2005-2006 was approved by the Audit Committee and me. I received regular progress reports on progress against this plan and on matters arising, including any control weaknesses identified.

The Home Office Audit and Assurance Unit provide me with a report on the internal audit activity in the Commission. Their reports include their independent opinion on the adequacy and effectiveness of the Commission's system of internal control based on the work undertaken.

Review of effectiveness

I was appointed Accounting Officer in July 2006. As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal controls. My review of the effectiveness of the system of internal controls is informed by the work of the internal auditors and the executive managers within the Commission who have responsibility for the development and maintenance of the internal control framework and comments made by the external auditors in their management letter and other reports. It is also informed by a review conducted jointly with my predecessor and by the work of the Audit Committee, Resources Committee, and Commissioners during the year.

The processes applied in maintaining and reviewing the effectiveness of the system of internal control during 2005-2006 included the following

- meetings of Commissioners during which the strategic risks facing the IPCC are reviewed;
- the Audit Committee, under an independent Chair, with both Commissioner and independent members, which receives reports on risk management and internal audit functions;
- the Home Office Audit and Assurance Unit who provide me with an independent opinion on the adequacy and effectiveness of the Commission's system of internal control based on the work undertaken; and
- a review by William Taylor CBE, QPM, formerly Her Majesty's Chief Inspector of Constabulary for Scotland, into IPCC information security following unauthorised disclosure of information concerning a major investigation.

I am pleased to note that in their annual assurance report the internal auditors have formed the opinion that the IPCC risk management and corporate governance areas are adequately controlled and continue to benefit from the growing maturity of these processes. I have discussed with the internal auditors and the Audit Committee those areas where we are improving our control over operational performance, its reporting and the systems that are in place to support operational resourcing.

Barry Simpson 18 July 2006
Acting Chief Executive Officer and Accounting Officer

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of IPCC on pages 16 to 29 for the year ended 31 March 2006 under Schedule 2 paragraph 17(2) of the Police Reform Act 2002. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Commission, Accounting Officer and Auditor

As described on page 11, the Commission and Accounting Officer are responsible for preparing the Foreword, the Remuneration Report and the financial statements in accordance with the Police Reform Act 2002 and the Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Commission's and Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Police Reform Act 2002 and the Treasury directions made thereunder. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Foreword is not consistent with the financial statements, if the Commission has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 12 and 13 reflects the Commission's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Commission's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Foreword, which includes the unaudited part of the Remuneration Report and the Management Commentary, and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Commission and Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Commission's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion

- the financial statements give a true and fair view, in accordance with the Police Reform Act 2002 and directions made thereunder by the Treasury, of the state of the Commission's affairs as at 31 March 2006 and of its surplus for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Police Reform Act 2002 and the Treasury directions made thereunder; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

19 July 2006

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

Income and Expenditure Account for the year ended 31 March 2006

	Notes	2005-2006 £000	2004-2005 £000 restated[1]
Grant in Aid received	2	**28,342**	22,815
Other income	3	**775**	0
Employment costs	4	**(16,144)**	(12,467)
Administrative costs	6	**(13,142)**	(10,969)
Loss on revaluation of fixed assets		**(627)**	(515)
Operating deficit on ordinary activities		**(796)**	(1,136)
Cost of capital	7	**(157)**	(135)
Operating deficit		**(953)**	(1,271)
Reversal of cost of capital	7	**157**	135
Transfer from Government Grant Reserve	14	**2,556**	1,887
Surplus for the year		**1,760**	751

Statement of Total Recognised Gains and Losses for the year ended 31 March 2006

	Notes	2005-2006 £000	2004-2005 £000 restated[1]
Surplus for the financial year		**1,760**	751
Surplus on revaluation of fixed assets and intangible fixed assets	14	**48**	70
Movement on Government Grant Reserve	14	**(1,148)**	1,518
Backlog depreciation	14	**(3)**	(1)
Actuarial loss	5	**(2)**	0
Total recognised gain for the year		**655**	2,338

The estimated cumulative effect of prior year adjustments on the total recognised gain for the year is a reduction of £300,000 (2004-2005: £302,000). The effect on the surplus is nil as the reduction in operating deficit is offset by an equal and opposite reduction in transfer from government grant reserve, and the increase in assets below the capitalisation threshold taken to expenditure is offset by a movement between capital and revenue grant in aid.

1 See note 19 for full details of the restatement of prior year results.

The notes on pages 19 to 29 form part of these Accounts.

Balance Sheet as at 31 March 2006

	Notes	**31 March 2006 £000**	31 March 2005 £000 restated[1]
Fixed assets			
Intangible assets	8	**1,157**	412
Tangible assets	9	**6,044**	7,983
		7,201	8,395
Current assets			
Debtors	10	**729**	1,058
Cash at Bank and in hand	11	**703**	473
		1,432	1,531
Current liabilities			
Creditors due within one year	12	**(3,249)**	(3,936)
Net current assets (liabilities)		**(1,817)**	(2,405)
Creditors due after one year	13	**(189)**	(1,814)
Total net assets before provisions		**5,195**	4,176
Provisions	16	**(426)**	(62)
Total assets less all liabilities		**4,769**	4,114
Income and Expenditure Account	14	**(2,172)**	(3,860)
Revaluation Reserve	14	**94**	69
Government Grant Reserve	14	**6,695**	7,843
Pension Reserve	14	**152**	62
Total capital and reserves		**4,769**	4,114

1 See note 19 for full details of the restatement of prior year results.

The notes on pages 19 to 29 form part of these Accounts.

Barry Simpson 18 July 2006
Acting Chief Executive and Accounting Officer

Cash Flow Statement for the year ended 31 March 2006

	Notes	**2005-2006 £000**	2004-2005 £000 restated[1]
Operating activities			
Net cash (outflow)/inflow from operating activities	15	**230**	(397)
Returns on investments and servicing of finance		**0**	0
Purchase of intangible fixed assets	8	**(345)**	(48)
Purchase of tangible fixed assets	9	**(1,197)**	(3,666)
Net cash outflow before financing		**(1,312)**	(4,111)
Financing for capital expenditure			
Grant in Aid	2	**1,408**	3,744
HMRC		**134**	0
Increase (decrease) in cash in the period		**230**	(367)

The notes on pages 19 to 29 form part of these Accounts.

Notes to the Accounts

1 Statement of accounting policies

Accounting basis

The Statement of Accounts set out on pages 16 to 18 together with the Notes on pages 19 to 29 have been prepared on an accruals basis (subject to paragraph 1.3 below) in accordance with the Accounts Direction given by the Secretary of State with the consent of the Treasury in accordance with paragraph 17(1) of Schedule 2 to the Police Reform Act 2002. The Accounts Direction given to the IPCC instructs that accounts should be prepared in accordance with the current edition of Financial Reporting Manual issued by HM Treasury.

Accounting conventions

The accounts have been prepared in a form directed by the Secretary of State with the approval of the Treasury in accordance with Schedule 2 to the Police Reform Act 2002. The accounts are prepared using the historical cost convention modified by the inclusion of fixed assets at current cost. Without limiting the information given, the accounts meet the accounting and disclosure requirements of the Companies Act 1985 and the accounting standards issued or adopted by the Accounting Standards Board so far as those requirements are appropriate.

Grant in Aid

Grant in Aid received for revenue expenditure is credited to income in the year in which it is received: it is accounted for on a cash basis. Grant in Aid for capital expenditure is credited to a Government Grant Reserve. Each year, an amount equal to the depreciation and amortisation charge on fixed assets acquired through Grant in Aid will be released from the Government Grant Reserve to the Income and Expenditure Account.

Value Added Tax

The IPCC is not registered for VAT and all costs shown are inclusive of VAT.

Fixed assets

Assets are capitalised as fixed assets if they are intended for use on a continuing basis and their original purchase cost (either individually or grouped if appropriate) is in excess of £5,000 (£1,000 in 2004-2005). Fixed assets are valued at current replacement cost by using Consumer price indices for Current Cost Accounting published by the Office for National Statistics.

Any surplus on revaluation is credited to the Revaluation Reserve. A deficit on revaluation is debited to the Income and Expenditure Account if the deficit exceeds the balance on the Revaluation Reserve.

Depreciation

Fixed assets are depreciated at rates calculated to write them down to estimated residual value on a straight-line basis over their estimated useful lives. Assets in the course of construction are not depreciated until the asset is brought into use.

The Anite Public Sector Ltd contract with IPCC provides that IT equipment supplied by them will be replaced to the end of the contract ending in 2009-2010; therefore these assets are depreciated over that period.

Asset lives are normally in the following ranges

- Intangible assets – three years
- Information technology equipment and infrastructure – three to five years
- Leasehold improvements – to the first lease break
- Furniture – 10 years
- Vehicles – three years

Pension costs

Pensions are ordinarily to be provided by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is described more fully in the Remuneration Report. Although the scheme is a defined benefit scheme, liability for payment of future benefits is a charge to the PCSPS. There is a separate scheme statement for the PCSPS as a whole. Employer pension contributions are accounted for on an accrual basis.

In the case of some ex-Police Complaints Authority Members, pensions are provided by a Broadly By Analogy pension arrangement. In these cases, the annual cost of the pension contribution is recognised in the Income and Expenditure Account. Amounts relating to changes in the actuarial valuation of scheme liabilities are adjusted via the Statement of Total Recognised Gains and Losses.

These financial statements are fully compliant with FRS 17.

Operating leases

The costs of operating leases held by the IPCC are charged to the Income and Expenditure Accounts in the period to which they relate on a straight-line basis.

Notional costs

In accordance with the Financial Reporting Manual and guidance published by HM Treasury, a notional charge for the cost of capital employed in the period is included in the Income and Expenditure Account along with an equivalent reversing notional income to finance the charge. The charge for the period is calculated using the Treasury's discount rate of three and a half per cent applied to the average value of capital employed during the period.

Going concern

The Accounts have been prepared on a going concern basis. It is assumed that as a matter of public policy the Home Office will provide funding for the continued operation of the IPCC.

2 Grant in Aid

The IPCC is funded by Grant in Aid from the Home Office Main Estimate (Resource RfR1, Subhead Y : 3)

	2005-2006 £000	2004-2005 £000 restated
Grant In Aid received for revenue expenditure per Income and Expenditure Account	**28,342**	22,815
Received for capital expenditure	**1,408**	3,435
	29,750	26,250

3 Other income

IPCC received income from HMRC for work undertaken under section 28 of the Commissioners for Revenue and Customs Act 2005. In addition income was received from the Metropolitan Police Authority for cost sharing of some forensics services. The IPCC financial objective for income from other government bodies is full cost recovery in accordance with the Treasury Fees and Charges Guide. This financial objective was achieved. The analysis below is provided solely for fees and charges purposes and is not disclosed for SSAP 25 purposes.

		2005-2006		2004-2005
		£000		£000
Fees and charges	**Income**	**Costs**	Surplus	Surplus
HMRC income	**708**	**(708)**	0	0
Police income	**67**	**(67)**	0	0
Total	**775**	**(775)**	0	0

4 Employment costs

Staff costs and Commissioners' remuneration

		2005-2006		2004-2005
		£000		£000
	Permanent	**Other**	Total	Total
Commissioners and CEO				
Salaries and emoluments	**1,353**	**0**	1,353	1,347
Social Security cost	**144**	**0**	144	142
Pension contributions	**321**	**0**	321	223
Staff				
Salaries and emoluments	**9,594**	**2,244**	11,838	9,451
Social Security cost	**830**	**0**	830	561
Pension contributions	**1,658**	**0**	1,658	743
	13,900	**2,244**	16,144	12,467

Permanent staff includes staff on fixed term contracts generally of 12 months duration. Other staff costs includes temporary and inward seconded staff.

Staff numbers (including Commissioners)

The average number of staff employed through the year to 31 March 2006 (full time equivalent) may be analysed as follows

		2005-2006		2004-2005
		£000		£000
	Permanent	**Other**	Total	Total
Commissioners and CEO	**20**	**0**	20	19
Management	**15**	**1**	16	18
Administrative and support	**86**	**9**	95	56
Investigator and casework	**186**	**35**	221	115
	307	**45**	352	208

5 Broadly by Analogy pensions

Certain Commissioners who served as Members with the Police Complaints Authority (PCA) receive pension benefits broadly by analogy (BBA) with the Principal Civil Service Pension Scheme (PCSPS). The accumulated liability of BBA pensions accumulated by reference to previous service (within the PCA) has not been transferred to the IPCC and remains a liability to be met by the Home Office, as PCA's sponsoring department.

The BBA pensions provision is unfunded, with benefits being paid as they fall due and guaranteed by IPCC for service from 1 April 2004 only. There is no fund and therefore no surplus or deficit or assets. The scheme liabilities for service from 1 April 2004 have been calculated by the Government Actuary's Department using the following financial assumptions

	2005-2006 per cent	2004-2005 per cent
rate of inflation	**2.5**	2.5
rate of increase in salaries	**4.0**	4.0
rate of increase in pensions payment and deferred pensions	**2.5**	2.5
rate used to discount scheme liabilities	**5.4**	6.1

The liabilities associated with Commissioners holding BBA pensions are as follows

	2005-2006 £000	2004-2005 £000
Pension provision		
Balance at 1 April	**62**	0
Increase in provision	**90**	62
Present value of liabilities	**152**	62

Other amounts to be disclosed in order to understand the change in provision.

	2005-2006 £000	2004-2005 £000
Overnight increase (decrease) in liabilities (including change in real return)	**0**	(7)
Current service cost (net of employee contributions)	**68**	53
Employee contributions	**15**	16
Interest cost	**5**	0
Actuarial losses (1.4 per cent)	**2**	0
Benefits paid	**0**	0
Increase in provision	**90**	62

No transfers have been made into the scheme and no transfers out have been made, nor retirements of participating Commissioners.

6 Administrative costs

	2005-2006 £000	2004-2005 £000 restated
Administrative costs include the following		
Travel and subsistence	**999**	735
Training	**573**	496
Accommodation costs other than rental costs	**1,320**	870
Accommodation rental on lease premises	**1,347**	1,671
IT costs	**2,357**	2,261
Depreciation costs	**2,132**	1,840
Recruitment costs	**648**	707
Professional services	**406**	421
Audit fee – external	**38**	38
Audit fee – internal	**47**	46
Loss on impairment of assets	**160**	0
Other costs	**3,115**	1,884
Total	**13,142**	10,969

IT costs include amounts due to Anite Public Sector Ltd for the provision of IT infrastructure and support services.

The external auditors provided no consultancy services.

7 Cost of capital

In accordance with the Financial Reporting Manual issued by HM Treasury a notional charge for the cost of capital employed in the period is included in the Income and Expenditure Account along with an equivalent reversing notional income to finance the charge. The charge for the period is calculated using the Treasury's discount rate of three and a half per cent applied to the mean value of capital employed during the period.

8 Intangible fixed assets

	2005-2006 £000 Software and licences
Cost or valuation	
Cost/valuation at 1 April 2005	714
Prior year adjustments	(38)
Cost/valuation at 1 April 2005 as restated	676
Additions	345
Revaluations	(288)
Transfers	1,683
Impairments	(15)
Cost at 31 March 2006	**2,401**
Depreciation	
Depreciation at 1 April 2005	282
Prior year adjustments	(18)
Depreciation at 1 April 2005 as restated	264
Transfers	322
On impairments	(5)
Charge for year	663
Depreciation at 31 March 2006	**1,244**
Net book value as at 31 March 2006	**1,157**
Net book value as at 31 March 2005 as restated	412

Asset transfers have taken place during the year to adjust prior misclassifications between IT Infrastructure and IT software.

9 Tangible fixed assets

	Information technology infrastructure £000	Vehicles £000	Fit out furniture fittings £000	Audio visual equipment £000	Total £000
Cost or valuation					
Cost/valuation at 1 April 2005	6,001	398	5,463	200	12,062
Prior year adjustments	(1,141)	1	(832)	(119)	(2,091)
Cost/valuation at 1 April 2005 as restated	4,860	399	4,631	81	9,971
Additions	677	0	585	73	1,335
Revaluations	(325)	(1)	48	(13)	(291)
Transfers	(1,683)	0	0	0	(1,683)
Impairments	(285)	0	0	0	(285)
Cost at 31 March 2006	**3,244**	**398**	**5,264**	**141**	**9,047**
Depreciation					
Depreciation at 1 April 2005	1,889	133	499	44	2,565
Prior year adjustments	(477)	0	(66)	(34)	(577)
Depreciation at 1 April 2005 as restated	**1,412**	**133**	**433**	**10**	**1,988**
Transfers	(322)	0	0	0	(322)
On impairments	(135)	0	0	0	(135)
Charge for year	496	133	809	31	1,469
Backlog depreciation	0	0	3	0	3
Depreciation at 31 March 2006	**1,451**	**266**	**1,245**	**41**	**3,003**
Net book value as at 31 March 2006	**1,793**	**132**	**4,019**	**100**	**6,044**
Net book value as at 31 March 2005 as restated	3,448	266	4,198	71	7,983

Asset transfers have taken place during the year to adjust prior misclassifications between IT Infrastructure and IT software.

10 Debtors

	2006 £000	2005 £000
Staff advances	**34**	3
Other debtors	**90**	24
Prepayments	**605**	1,031
Total debtors as at 31 March	**729**	1,058

All debts and amounts recoverable are due within one year.

11 Cash at bank and in hand

	2006 £000	2005 £000
Balance at 1 April	**473**	840
Net change in cash balances	**230**	(367)
Balance as at 31 March	**703**	473

The cash at bank and in hand is represented by £703,000 held at a commercial bank.

12 Creditors due within one year

	2006 £000	2005 £000
Trade creditors	**(1,153)**	(1,971)
Accruals and deferred income	**(1,359)**	(1,585)
Other creditors	**(12)**	(23)
Taxation and social security	**(564)**	(303)
Amounts due to public bodies	**(161)**	(54)
Total as at 31 March	**(3,249)**	(3,936)

13 Creditors due after one year

	2006 £000	2005 £000
Deferred income	**(89)**	0
Property rent accruals	**(100)**	(1,814)
	(189)	(1,814)

Rent is accrued where there is a rent free period, so that the total amount to be paid over the term of the lease up to the date of the first rent review is apportioned equally over the time period from the commencement date of the lease up to the date of the first rent review.

14 Income and Expenditure Account and Reserves

	Income and Expenditure Account £000	Revaluation Reserve £000	Government Grant Reserve £000	Pension Reserve £000	**2005-2006 Total £000**
Opening balance at 1 April 2005 as previously stated	(3,208)	78	8,717	62	**5,649**
Prior year adjustment	(652)	(9)	(874)	0	**(1,535)**
Opening balance at 1 April 2005 as restated	(3,860)	69	7,843	62	**4,114**
Surplus for year	1,760	0	0	0	**1,760**
Unrealised surplus on revaluations of fixed assets	0	48	0	0	**48**
Transfer from Revaluation Reserve	20	(20)	0	0	**0**
Actuarial loss in year	0	0	0	(2)	**(2)**
Movement in Pension Reserve	(92)	0	0	92	**0**
Capital expenditure funding	0	0	1,408	0	**1,408**
Depreciation, revaluations and impairments	0	0	(2,556)	0	**(2,556)**
Backlog depreciation	0	(3)	0	0	**(3)**
Closing balance as at 31 March 2006	(2,172)	94	6,695	152	**4,769**

15 Reconciliation of net operating cost to net cash inflow/outflow

	2006 £000	2005 £000
Operating deficit	**(953)**	(1,271)
Cost of capital	**157**	135
Depreciation and amortisation	**2,132**	1,840
Unrealised loss on revaluation of fixed assets	**627**	515
BBA Pension provision	**88**	62
Dilapidations provision	**61**	0
Other provisions	**75**	0
Loss on impairment of assets	**160**	0
(Increase) decrease in debtors	**329**	(800)
(Decrease) in creditors due within one year	**(732)**	(1,825)
Increase (decrease) in creditors due after one year	**(1,714)**	947
Net cash inflow (outflow) from operating activities	**230**	(397)

16 Provisions

Provisions have been made for pensions and for other potential costs. In addition the IPCC recognises a dilapidation provision for all leased properties where it has an obligation to bring the property into a good state of repair at the end of the lease. The provision is based on the estimated costs of reinstatement of modifications it has made and repair obligations required during the lease. The estimated cost of reinstating modifications made to the buildings is £138,000. In line with FRS12, the costs of reinstatement have been recognised as part of the fit-out assets and will be depreciated over the lease terms. In addition £61,000 has been provided for current wear and tear obligations.

	Pension £000	Property £000	Other £000	**2005-2006 Total £000**
Opening balance at 1 April 2005	62	0	0	**62**
Increase/(decrease)	90	199	75	**364**
Closing balance as at 31 March	152	199	75	**426**

Commissioners with BBA pensions wish to transfer their existing pension benefits from other BBA schemes. Because of uncertainties surrounding the rules on transfers and the level of cash consideration for the transfer, the IPCC has been unable to complete these transfers. Once these uncertainties have been resolved the additional pension provision required is estimated to be a further £363,000.

17 Capital commitments

At 31 March 2006, the IPCC has capital commitments outstanding of £24,000 (£476,000 for 2005). This is in respect of contracted information technology programmes committed under an ongoing service contract covering the IPCC technology plan.

18 Commitments under leases

IPCC had no finance leases in the period. At 31 March 2006 the IPCC had the following annual commitments under operating leases.

	2006	2005
	£000	£000
Expiring in less than one year	**0**	0
Expiring in one to five years	**206**	21
Expiring in more than five years	**2,058**	2,038
Total as at 31 March	**2,264**	2,059

19 Restatement for prior period adjustments

The accounting policy for capitalisation of fixed assets was changed in 2005-2006 to increase the recognition threshold from £1,000 to the £5,000 value used by the Home Office. The impact on the reported 2004-2005 results is shown as follows

	2004-2005
	£000
Prior year operating deficit on ordinary activities as reported	1,756
Decrease in depreciation	(485)
Decrease in indexation	(135)
Prior year deficit as restated	**1,136**
Transfer from Capital Grant Reserve 2004-2005 as reported	2,507
Decrease in depreciation as above	(485)
Decrease in indexation as above	(135)
Transfer from Capital Grant Reserve 2004-2005 as restated	**1,887**
Fixed asset net book value as reported	9,930
Decrease in asset cost b/fwd 1 April 2004 (at valuation)	(1,947)
Decrease in additions 2004-2005	(309)
Decrease in indexation 2004-2005 as above	135
Decrease in revaluation reserves b/fwd 1 April 2005	(9)
Decrease in depreciation 2004-2005 as above	485
Decrease in depreciation b/fwd 1 April 2004	110
Fixed asset net book value as restated	**8,395**

20 Deferred income

These are monies received for fixed assets additions for work being undertaken for HMRC. These amounts will be recognised in the Income Statement over the useful life of the assets in a manner analogous to the accounting treatment for government grant reserve.

	2006	2005
	£000	£000
Deferred Income to be recognised within one year	**45**	0
Deferred Income to be recognised in one to five years	**89**	0
Total as at 31 March	**134**	0

21 Intra-government balances

	2006	2005
	£000	£000
Debtors		
Balances with Local Authorities	**67**	0
Total as at 31 March	**67**	0
Creditors		
Balances with central government bodies	**(100)**	(54)
Balances with trading funds and public corporations	**(11)**	0
Balances with local authorities	**(50)**	0
HMRC in respect of taxation and social security	**(564)**	(303)
Total as at 31 March	**(725)**	(357)

22 Post Balance Sheet events

There are no Post Balance Sheet events to report.

23 Contingent liabilities

The IPCC has a contingent liability of £185,000 in respect of a potential payment for intellectual property rights over its case management software. However the IPCC considers that this value is substantially in excess of any potential settlement.

24 Special payments

Total special payments made were below the threshold that requires reporting.

25 Financial instruments

The IPCC has no borrowings and relies on Grant In Aid from the Home Office for its cash requirements, and is therefore not exposed to liquidity risks. It has no material deposits, and all material assets and liabilities are denominated in sterling, so it is not exposed to interest rate risk or currency risk.

The IPCC cash is held with the Co-operative Bank where it earns interest at 2 per cent below the base rate. Interest earned must be returned to the Home Office.

26 Related party transactions

The Home Office is considered to be a related party of the IPCC. During the year ended 31 March 2006 with the exception of the Home Office providing grant in aid and internal audit services, no other related party transactions were entered into.

As part of its normal operating activities IPCC uses Forensic Science Service Ltd which is a government owned company and as such is a related party. On occasion these forensic costs are shared with the relevant police authority and this is included in other income.

HMRC is a government department and is therefore a related party. During the year ended 31 March 2006 IPCC set up the infrastructure to undertake investigations into HMRC under the provisions of section 28 of the Commissioners for Revenue and Customs Act 2005. The income for this set up activity is shown under other income.

During the year ended 31 March 2006 none of the appointed Commissioners, Directors or key managerial staff undertook any material transactions with the IPCC.

The IPCC has adopted a Code of Conduct based on the Cabinet Office code of practice for Board Members of public bodies. The IPCC maintains a register of interests for Commissioners and all staff who are required to declare interests. The Register of Interests for Commissioners is available to the public and is on our website. Where any decisions are taken which could reasonably be seen as giving rise to a conflict of interest individuals are required to declare the relevant interest and, when appropriate, withdraw from participating in the taking of the decision. The Commissioners and staff codes of conduct are available on our website. IPCC procedures also ensure that investigators are not engaged on investigations in which they would have an interest.

27 Financial targets

For the year 2005-2006 IPCC had no formally agreed financial targets other than the need to stay within the Home Office resource allocation of £28.2 million.

The resource outturn comparable to this target is shown below.

	2005-2006 £000	2004-2005 £000 restated
Other income	**775**	0
Employment costs	**(16,144)**	(12,467)
Administrative costs	**(13,142)**	(10,969)
Loss on revaluation of assets	**(627)**	(515)
Cost of capital	**(157)**	(135)
Resource outturn as 31 March	**(29,295)**	(24,086)

The Home Office authorised £1 million additional funding during the year for the costs of major investigations and resolution of casework. This was exceeded due to losses on revaluation of assets.

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP
Tel: 020 7798 7400
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