

Presented pursuant to c.32, Section 12(6)(b) of the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003

Police Service of Northern Ireland Accounts 2004-2005

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Foreword to the Annual Financial Statements - Police Property Fund

Background information

The Police (Northern Ireland) Act 2000 and subsequent amendments in the Police (Northern Ireland) Act 2003, made specific provision about policing in Northern Ireland. Section 12 (4) of the 'Act', as amended by Section 7 of the 2003 'Act', refers specifically to the requirement for the Chief Constable to submit the statement of accounts to the Northern Ireland Policing Board (in regard to amounts put at disposal of the Chief Constable by the Policing Board) within such period after the end of the financial year to which they relate as the Secretary of State may determine. This is to allow the Policing Board to meet their own specific requirements under Section 12 (1) (a) of the Act.

The Police Service of Northern Ireland (PSNI) exists to provide effective, high quality and professional policing to all of the people living in the Province. It aims to do this by working closely with the many and diverse communities that make up society in Northern Ireland. The key themes, which continually drive forward the development of policing services, are partnership and co-operation, both with the community served and with other agencies in the private, public and voluntary sectors. All of this is done against a background of ongoing change and improvements and with a determination to make best use of finite resources, whether financial or human, to provide the best value services possible.

The Police Property Fund is a separate fund, administered by the PSNI and established by regulations under section 2 of the Police (Property) Act 1897, which comprises unclaimed receipts arising from criminal investigations by the PSNI, which the Policing Board donate to charities.

The Financial Statements have been prepared in a form directed by the Northern Ireland Office on behalf of the Secretary of State for Northern Ireland, and are in accordance with Section 12 (3) of Part 2 to the Police (Northern Ireland) Act 2000 and subsequent amendments made by the Police (Northern Ireland) Act 2003.

Results for the year

The Income and Expenditure Account is set out on page 9 and shows a surplus £6,733.

Charitable contributions

Police Property Fund made no charitable donations or political donations during the year.

Chief Officers

The posts held by the Chief Officers who are members of the Chief Constable's Forum are detailed in the Annual Financial Statements of the Police Service of Northern Ireland.

Disabled persons

PSNI is an equal opportunity employer and took full cognisance of the Northern Ireland Civil Service Code of Practice on the employment of people with disabilities.

Employee involvement

PSNI maintains regular communications and contact with managers and staff through meetings, team briefings, seminars, circulars, information bulletins and staff newsletters. It also has well-established arrangements for formal consultation with recognised Trade Union representatives on all significant developments affecting staff.

Health and safety

PSNI is committed to providing for staff an environment that is as far as possible safe and free from risk to health. In line with this commitment, the relevant legislation was complied with.

Prompt payment policy

PSNI is committed to the prompt payment of bills for goods and services received in accordance with the Government's Better Payments Practice Code and British Standard BS 7890 'Achieving Good Payment Performance in Commercial Transactions'. Unless otherwise stated in the contract, payment was due within 30 days of the receipt of the goods or services or presentation of a valid invoice or similar demand, whichever is later. PSNI paid one invoice in respect of the Police Property Fund this year which was paid within 30 days of the date on which it was registered for payment.

Interest rate and currency risk

PSNI has no borrowings and relies primarily on Departmental grants for its cash requirements, and is therefore not exposed to liquidity risks. It also has no material deposits. As all significant assets and liabilities are determined in sterling it is not exposed to material interest rate risk or currency risk.

Audit services

The National Audit Office are responsible for the audit of the Police Property Fund Financial Statements. Audit services are paid by the Police Service of Northern Ireland and therefore payment details are included in their Annual Financial Statements. The fees for this year are £2,000 (2003-2004 -£2,082).

Chief Constable's Annual Report

A certified copy of these Police Property Fund Financial Statements will be included on the PSNI's website as an addendum to the Chief Constable's 2004-2005 Annual Report.

Sir Hugh Orde
Chief Constable
Police Service of Northern Ireland

25 October 2005

Statement of Responsibilities of the Police Service of Northern Ireland and the Chief Constable - Police Property Fund

Police Property Fund financial statements

Under Part II, Sections 12(1), 12(2) and 12(3) of the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003, the Chief Constable of the Police Service of Northern Ireland is required to prepare a statement of accounts on behalf of the Northern Ireland Policing Board, in the form and on the basis directed by the Secretary of State. The Police Property Fund financial statements are prepared on an accruals basis and must give a true and fair view of the income and expenditure, total recognised gains and losses and cash flows for the financial year and the balances held at year end. In preparing the accounts, the Chief Constable of the PSNI is required to

- observe the accounts direction issued by the Northern Ireland Office, 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 have been followed and disclose and explain any material departures in the annual financial statements; and
- prepare the financial statements on the going concern basis.

Role of the Chief Constable of Police Service of Northern Ireland as Accounting Officer for Police Grant

The Accounting Officer for the Northern Ireland Office designated the Chief Constable of the Police Service of Northern Ireland as Accounting Officer for the Police Service of Northern Ireland. The Chief Constable's relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officer Memorandum issued by HM Treasury and published in Government Accounting.

Statement on Internal Control - Police Property Fund

Scope of responsibility

As Accounting Officer for the Police Service of Northern Ireland, I have responsibility for maintaining a sound system of internal control that supports the achievement of PSNI's policies, aims and objectives, set by the Northern Ireland Policing Board, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

I am directly accountable to the Accounting Officer of the Northern Ireland Office and may be called upon to appear before the Public Accounts Committee. The responsibilities of an Accounting Officer are set out in the Police Act 2000 and in the HM Treasury memorandum 'Responsibilities of an NDPB Accounting Officer'.

The purpose of the system of internal control

The 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 organisational 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 PSNI for the year ended 31 March 2005 and up to the date of approval of the annual financial statements, and accords with Treasury guidance.

Capacity to handle risk

All Chief Officers and Senior Managers, together with the Audit and Risk Committee, have played an important role in providing leadership to the risk management process. In addition, training has been provided to staff throughout the organisation to ensure that staff are equipped to manage risk. During the year, the methodology used for assessing both the impact and likelihood of risk has been reviewed and refined in order to make it more objective. Representatives from Departments and District Command Units (DCU's) have been trained in this revised methodology.

The risk and control framework

A Risk Policy Framework document has been prepared and issued to the organisation. This explains the underlying approach to risk management, documents the roles and responsibilities of the Chief Constable, Chief Officers and other relevant parties including line management. In addition, it also includes details of the monitoring and reporting arrangements.

With the publication of the Policing Plan and as part of the development of a fully integrated planning process, all Departments and DCU's reviewed their risk registers in light of priorities selected for 2004-2005. A Corporate Risk Register has been in place to highlight the most significant strategic risks facing the organisation for 2004-2005. The Register is currently being revised and updated to take account of the new priorities for 2005-2006. The key risks have been highlighted and grouped and will be prioritised before being approved by Chief Officers.

Internal Audit has recently undertaken a review of the Corporate Risk Register. A number of recommendations have been made, which should enhance the existing arrangements for considering risk at the corporate level.

Stewardship reporting is a key element of ensuring accountability and ownership of risks and their management within the organisation. All Chief Officers are required to sign a Stewardship Statement on a half yearly basis to confirm that over a period of time, they have reviewed the risk register for their respective areas of responsibility and assessed the management of the risks identified. The signing of the Stewardship Statements helps to provide assurance that all risks are being managed in the organisation.

The Audit and Risk Committee is responsible for monitoring the PSNI's risk management and internal controls on a regular basis during the year. This Committee receives reports from internal and external audit and, in addition, reports presented on the risk management process. PSNI is also subject to regular review by Her Majesty's Inspectorate of Constabulary and other independent monitoring bodies, adding to the framework of assurance. The Committee was strengthened during the year by the appointment of two Non-Executive Directors.

A significant Change Programme is still underway and the risk and control framework will continue to develop to reflect a changing environment. In particular, risk management is being incorporated more fully into the corporate planning and decision-making processes of the organisation and will provide increased assurance that significant risks will be identified, evaluated and appropriately controlled in the organisation.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the Chief Officers within the organisation 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. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Chief Officers and the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

As Accounting Officer I have received reports from the Chair of the Audit and Risk Committee concerning internal control. PSNI has developed a framework to give assurance in management of risk across the organisation.

During the year Deloitte provided an Internal Audit Service in accordance with the standards defined in the Government Internal Audit Manual. They submitted regular reports together with recommendations for improvement. In addition, the Head of Internal Audit has issued an independent opinion on the adequacy and effectiveness of the organisation's system of internal control.

Sir Hugh Orde
Chief Constable
Police Service of Northern Ireland

25 October 2005

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

I certify that I have audited the financial statements on pages 9 to 12 under the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003. These financial statements have been prepared under the historical cost convention and the accounting policies set out on page 12.

Respective responsibilities of the Police Service of Northern Ireland, the Chief Constable and the Auditor

As described on page 4, the Chief Constable of the Police Service of Northern Ireland is responsible for the preparation of the financial statements in accordance with the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003 and directions made thereunder by the Secretary of State for Northern Ireland and for ensuring the regularity of financial transactions. The Chief Constable is also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003 and directions made thereunder by the Secretary of State for Northern Ireland, and 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 if, in my opinion, the Foreword is not consistent with the financial statements, if the Police Service of Northern Ireland has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 5 and 6 reflects the Police Service of Northern Ireland's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Chief Constable's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Police Service of Northern Ireland's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the judgements made by the Police Service of Northern Ireland in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Police Service of Northern Ireland'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 are free from material misstatement, whether caused by error, or by fraud or other irregularity 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 have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion

- the financial statements give a true and fair view of the state of affairs of the Police Property Fund at 31 March 2005 and of the surplus, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003 and directions made thereunder by the Secretary of State for Northern Ireland; 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

8 November 2005

National Audit Office
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Victoria
London SW1W 9SP

Income and Expenditure account for the year ended 31 March 2005

	Year ended 31 March 2005 £	Year ended 31 March 2004 £
Income		
Proceeds from sale of seized and lost property	8,222	6,474
Expenditure		
Sundry Expenses of collection, storage and disposal	1,489	1,097
Surplus for the year	6,733	5,377

There have been no gains or losses other than those recognised in the Income and Expenditure account.

The notes on page 12 form part of this account.

All amounts above relate to continuing activities.

Balance Sheet as at 31 March 2005

	Notes	31 March 2005 £	31 March 2004 £
Current assets			
Debtor	2	16,698	9,573
Current liabilities			
Creditor	3	(1,489)	(1,097)
Net current assets		15,209	8,476
Total assets less total liabilities		15,209	8,476
Financed by			
Reserves			
General Fund	4	15,209	8,476
		15,209	8,476

The notes on page 12 form part of this account.

Sir Hugh Orde
Chief Constable
Police Service of Northern Ireland

25 October 2005

Cashflow Statement for the year ended 31 March 2005

	31 March 2005	31 March 2004
	£	£
Net cash inflow from operating activities		
Surplus for the year	6,733	5,377
Increase in cash	6,733	5,377

The notes on page 12 form part of this account.

Notes to the Annual Financial Statements - Police Property Fund

1 Statement of principal accounting policies

1.1 Accounting convention

The financial statements have been prepared on an income and expenditure basis in accordance with the historical cost convention. Without limiting the information given, the financial statements comply with the accounting and disclosure requirements of the Companies (Northern Ireland) Order 1986, the accounting standards issued or adopted by the Accounting Standards Board and accounting and disclosure requirements issued by HM Treasury.

1.2 Value Added Tax

Income is shown exclusive of Value Added Tax. The payment in this financial year is inclusive of Value Added Tax as this was not recoverable. Irrecoverable VAT is charged to the relevant payment category.

1.3 Bank

The Police Property Fund has no separate bank account. It uses the banking arrangements of the PSNI.

2 Debtor

	31 March 2005	31 March 2004
	£	£
Money due from the PSNI	16,698	9,573

3 Creditor

Money due to the PSNI	1,489	1,097
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4 General Fund

Balance at 1 April	8,476	3,099
Add surplus for the year	6,733	5,377
Balance at 31 March	15,209	8,476

5 Related party disclosures

PSNI is a body of constables, funded through the NIPB which is a Non-Departmental Public Body of the NIO.

The NIO is regarded as a related party. During the year PSNI had a number of material transactions with the NIO and with other government departments and central government bodies. Most of these transactions have been with: the Forensic Science NI; the NI Prison Service (both executive agencies of the NIO); the Rate Collection Agency (executive agency of the Department of Finance and Personnel) and the Construction Service (Department of Finance and Personnel Core).

None of the senior staff of PSNI undertook any transactions during the year.

Foreword to the Annual Financial Statements - Police Fund

Background information

The Police (Northern Ireland) Act 2000 and subsequent amendments in the Police (Northern Ireland) Act 2003, made specific provision about policing in Northern Ireland. Section 12 (4) of the 'Act', as amended by Section 7 of the 2003 'Act', refers specifically to the requirement for the Chief Constable to submit the statement of accounts to the Northern Ireland Policing Board (in regard to amounts put at disposal of the Chief Constable by the Policing Board) within such period after the end of the financial year to which they relate as the Secretary of State may determine. This is to allow the Policing Board to meet their own specific requirements under Section 12 (1) (a) of the Act.

The Police Service of Northern Ireland (PSNI) exists to provide effective, high quality and professional policing to all of the people living in the Province. It aims to do this by working closely with the many and diverse communities that make up society in Northern Ireland. The key themes, which continually drive forward the development of policing services, are partnership and co-operation, both with the community served and with other agencies in the private, public and voluntary sectors. All of this is done against a background of ongoing change and improvements and with a determination to make best use of finite resources, whether financial or human, to provide the best value services possible.

The Police Fund is a separate fund administered by the PSNI in association with the RUC Benevolent Fund and ex-members who volunteer their services. It was established by regulations under section 28 of the Police Act (NI) 1970 which consists of a PSNI Grant and fines imposed on police officers as a result of disciplinary action. This together with investment income, is applied by PSNI for the welfare of police officers and their dependants.

The Financial Statements have been prepared in a form directed by the Northern Ireland Office on behalf of the Secretary of State for Northern Ireland, and are in accordance with Section 12 (3) of Part 2 to the Police (Northern Ireland) Act 2000 and subsequent amendments made by the Police (Northern Ireland) Act 2003.

Results for the year

The income and expenditure account is set out on page 8 and shows a surplus for the year of £15,234.

Charitable contributions

The Police Fund made no charitable donations or political donations during the year.

Chief Officers

The posts held by the Chief Officers who are members of the Chief Constable's Forum are detailed in the Annual Financial Statements of the Police Service of Northern Ireland.

Disabled persons

PSNI is an equal opportunity employer and took full cognisance of the Northern Ireland Civil Service Code of Practice on the employment of people with disabilities.

Employee involvement

PSNI maintains regular communications and contact with managers and staff through meetings, team briefings, seminars, circulars, information bulletins and staff newsletters. It also has well-established arrangements for formal consultation with recognised Trade Union representatives on all significant developments affecting staff.

Health and safety

PSNI is committed to providing for staff an environment that is as far as possible safe and free from risk to health. In line with this commitment, the relevant legislation was complied with.

Prompt payment policy

PSNI is committed to the prompt payment of bills for goods and services received in accordance with the Government's Better Payments Practice Code and British Standard BS 7890 'Achieving Good Payment Performance in Commercial Transactions'. Unless otherwise stated in the contract, payment was due within 30 days of the receipt of the goods or services or presentation of a valid invoice or similar demand, whichever is later. Payments for the Police Fund are made through the PSNI. PSNI paid 88 per cent of all invoices within 30 days of the date on which they were registered for payment during the period.

Interest rate and currency risk

PSNI has no borrowings and relies primarily on Departmental grants for its cash requirements, and is therefore not exposed to liquidity risks. It also has no material deposits. As all significant assets and liabilities are determined in sterling it is not exposed to material interest rate risk or currency risk.

Audit services

The National Audit Office are responsible for the audit of the Police Fund Financial Statements. Audit services are paid by the Police Service of Northern Ireland and therefore payment details are included in their Annual Financial Statements. The fees for this year are £2,000 (2003-2004 £2,082).

Chief Constable's Annual Report

A certified copy of these Police Fund Financial Statements will be included on the PSNI's website as an addendum to the Chief Constable's 2004-2005 Annual Report.

Sir Hugh Orde
Chief Constable
Police Service of Northern Ireland

25 October 2005

Statement of responsibilities of the Police Service of Northern Ireland and the Chief Constable

Police Fund financial statements

Under Part II, Sections 12(1), 12(2) and 12(3) of the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003, the Chief Constable of the Police Service of Northern Ireland is required to prepare a statement of accounts on behalf of the Northern Ireland Policing Board, in the form and on the basis directed by the Secretary of State. The Police Fund financial statements are prepared on an accruals basis and must give a true and fair view of the income and expenditure, total recognised gains and losses and cash flows for the financial year and the balances held at year end. In preparing the accounts, the Chief Constable of the PSNI is required to

- observe the accounts direction issued by the Northern Ireland Office, 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 have been followed and disclose and explain any material departures in the annual financial statements; and
- prepare the financial statements on the going concern basis.

Role of the Chief Constable of Police Service of Northern Ireland as Accounting Officer for Police Grant

The Accounting Officer for the Northern Ireland Office designated the Chief Constable of the Police Service of Northern Ireland as Accounting Officer for the Police Service of Northern Ireland. The Chief Constable's relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officer Memorandum issued by HM Treasury and published in Government Accounting.

Statement on Internal Control - Police Fund

Scope of responsibility

As Accounting Officer for the Police Service of Northern Ireland, I have responsibility for maintaining a sound system of internal control that supports the achievement of PSNI's policies, aims and objectives, set by the Northern Ireland Policing Board, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

I am directly accountable to the Accounting Officer of the Northern Ireland Office and may be called upon to appear before the Public Accounts Committee. The responsibilities of an Accounting Officer are set out in the Police Act 2000 and in the HM Treasury memorandum 'Responsibilities of an NDPB Accounting Officer'.

The purpose of the system of internal control

The 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 organisational 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 PSNI for the year ended 31 March 2005 and up to the date of approval of the annual financial statements, and accords with Treasury guidance.

Capacity to handle risk

All Chief Officers and Senior Managers, together with the Audit and Risk Committee, have played an important role in providing leadership to the risk management process. In addition, training has been provided to staff throughout the organisation to ensure that staff are equipped to manage risk. During the year, the methodology used for assessing both the impact and likelihood of risk has been reviewed and refined in order to make it more objective. Representatives from Departments and District Command Units (DCU's) have been trained in this revised methodology.

The risk and control framework

A Risk Policy Framework document has been prepared and issued to the organisation. This explains the underlying approach to risk management, documents the roles and responsibilities of the Chief Constable, Chief Officers and other relevant parties including line management. In addition, it also includes details of the monitoring and reporting arrangements.

With the publication of the Policing Plan and as part of the development of a fully integrated planning process, all Departments and DCU's reviewed their risk registers in light of priorities selected for 2004-2005. A Corporate Risk Register has been in place to highlight the most significant strategic risks facing the organisation for 2004-2005. The Register is currently being revised and updated to take account of the new priorities for 2005-2006. The key risks have been highlighted and grouped and will be prioritised before being approved by Chief Officers.

Internal Audit has recently undertaken a review of the Corporate Risk Register. A number of recommendations have been made, which should enhance the existing arrangements for considering risk at the corporate level.

Stewardship reporting is a key element of ensuring accountability and ownership of risks and their management within the organisation. All Chief Officers are required to sign a Stewardship Statement on a half yearly basis to confirm that over a period of time, they have reviewed the risk register for their respective areas of responsibility and assessed the management of the risks identified. The signing of the Stewardship Statements helps to provide assurance that all risks are being managed in the organisation.

The Audit and Risk Committee is responsible for monitoring the PSNI's risk management and internal controls on a regular basis during the year. This Committee receives reports from internal and external audit and, in addition, reports presented on the risk management process. PSNI is also subject to regular review by Her Majesty's Inspectorate of Constabulary and other independent monitoring bodies, adding to the framework of assurance. The Committee was strengthened during the year by the appointment of two Non-Executive Directors.

A significant Change Programme is still underway and the risk and control framework will continue to develop to reflect a changing environment. In particular, risk management is being incorporated more fully into the corporate planning and decision-making processes of the organisation and will provide increased assurance that significant risks will be identified, evaluated and appropriately controlled in the organisation.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the Chief Officers within the organisation 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. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Chief Officers and the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

As Accounting Officer I have received reports from the Chair of the Audit and Risk Committee concerning internal control. PSNI has developed a framework to give assurance in management of risk across the organisation.

During the year Deloitte provided an Internal Audit Service in accordance with the standards defined in the Government Internal Audit Manual. They submitted regular reports together with recommendations for improvement. In addition, the Head of Internal Audit has issued an independent opinion on the adequacy and effectiveness of the organisation's system of internal control.

Sir Hugh Orde
Chief Constable
Police Service of Northern Ireland

25 October 2005

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

I certify that I have audited the financial statements on pages 20 to 24 under the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003. These financial statements have been prepared under the historical cost convention as modified to account for the valuation of investments at market value and the accounting policies set out on pages 23 to 24.

Respective responsibilities of the Police Service of Northern Ireland, the Chief Constable and the Auditor

As described on page 15, the Chief Constable of the Police Service of Northern Ireland is responsible for the preparation of the financial statements in accordance with the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003 and directions made thereunder by the Secretary of State for Northern Ireland and for ensuring the regularity of financial transactions. The Chief Constable is also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003 and directions made thereunder by the Secretary of State for Northern Ireland, and 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 if, in my opinion, the Foreword is not consistent with the financial statements, if the Police Service of Northern Ireland has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 16 and 17 reflects the Police Service of Northern Ireland's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Chief Constable's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Police Service of Northern Ireland's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the judgements made by the Police Service of Northern Ireland in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Police Service of Northern Ireland'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 are free from material misstatement, whether caused by error, or by fraud or other irregularity 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 have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion

- the financial statements give a true and fair view of the state of affairs of the Police Fund at 31 March 2005 and of the surplus, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003 and directions made thereunder by the Secretary of State for Northern Ireland; 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

8 November 2005

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

Income and Expenditure account for the year ended 31 March 2005 - Police Fund

	Note	Year ended 31 March 2005	Year ended 31 March 2004
Income			
Dividends and interest		2,866	2,715
Grant income	2	14,127	26,264
Inland Revenue refund		581	552
Fines on Members of the PSNI		12,980	10,581
		30,554	40,112
Expenditure			
Corporation Tax		170	175
Disbursements for the welfare of members of PSNI and their dependants		15,150	36,906
		15,320	37,081
Surplus for the year		15,234	3,031

Statement of Total Recognised Gains and Losses for the year ended 31 March 2005

	Year ended 31 March 2005	Year ended 31 March 2004
Surplus for the year	15,234	3,031
Surplus on revaluation of fixed assets	112	1,337
Total recognised gains for the year	15,346	4,368

The notes on pages 23 to 24 form part of this account.

All amounts above relate to continuing activities.

Balance Sheet as at 31 March 2005 - Police Fund

	Notes	31 March 2005 £	31 March 2004 £
Fixed assets			
Investments	6	63,465	63,353
Current assets			
Debtors	3	13,675	11,133
Bank	4	15,311	14,039
		28,986	25,172
Current liabilities			
Creditors	5	(1,193)	(12,613)
Net current assets		27,793	12,559
Total assets less total liabilities		91,258	75,912
Financed by			
Reserves			
General Fund	7	89,809	74,575
Revaluation reserve	8	1,449	1,337
		91,258	75,912

The notes on pages 23 to 24 form part of this account.

Sir Hugh Orde
Chief Constable
Police Service of Northern Ireland

25 October 2005

Cashflow Statement for the year ended 31 March 2005 - Police Fund

	Note	31 March 2005 £	31 March 2004 £
Net cash inflow from operating activities	9	1,272	4,511
Increase in cash		1,272	4,511

The notes on pages 23 to 24 form part of this account.

Notes to the Annual Financial Statements for the year ended 31 March 2005 - Police Fund

1 Statement of principal accounting policies

1.1 Accounting convention

The financial statements have been prepared in accordance with the historical cost convention modified to account for the valuation of investments at market value. Without limiting the information given, the financial statements comply with the accounting and disclosure requirements of the Companies (Northern Ireland) Order 1986, the accounting standards issued or adopted by the Accounting Standards Board and accounting and disclosure requirements issued by HM Treasury.

1.2 Value Added Tax

Value Added Tax is not applicable with respect to receipts. Income is shown inclusive of Value Added Tax. Irrecoverable VAT is charged to the relevant expenditure category.

1.3 Corporation Tax

Corporation tax is charged on the interest received during the year from the consolidated stock.

2 Grant income

As a tax efficiency measure NIPB agreed to meet expenses incurred by officers and their dependants visiting the Police Convalescent Homes from the Police Fund and to make a corresponding grant to the Fund.

3 Debtors

	2005 £	2004 £
Money due from PSNI	13,561	11,133
Money due from Inland Revenue	114	0
	<u>13,675</u>	<u>11,133</u>

4 Bank

	2005 £	2004 £
Opening Bank Balance 1 April	14,039	9,528
Net cash inflow	1,272	4,511
Closing Bank Balance 31 March	<u>15,311</u>	<u>14,039</u>

5 Creditors

	2005 £	2004 £
Money due to PSNI	1,193	12,613

6 Investments

14,200 4% Consolidated Stock at Market Value (Cost £10,016)	11,465	11,353
Advances to the Consolidated Fund of Northern Ireland	52,000	52,000
	<u>63,465</u>	<u>63,353</u>

7 General fund

	2005	2004
	£	£
Balance as at 1 April 2004	74,575	71,544
Surplus for the year	15,234	3,031
Balance as at 31 March 2005	89,809	74,575

8 Revaluation reserve

Balance as at 1 April 2004	1,337	0
Surplus/(deficit) on revaluation of fixed asset	112	1,337
Balance as at 31 March 2005	1,449	1,337

9 Notes to the cash flow statement

Surplus for the year	15,234	3,031
(Increase) in Debtors	(2,542)	(11,133)
(Decrease)/Increase in creditors	(11,420)	12,613
Net cash inflow from operating activities	1,272	4,511

10 Related party disclosures

PSNI is a body of constables, funded through the NIPB which is a Non-Departmental Public Body of the NIO.

The NIO is regarded as a related party. During the year PSNI had a number of material transactions with the NIO and with other government departments and central government bodies. Most of these transactions have been with: the Forensic Science NI; the NI Prison Service (both executive agencies of the NIO); the Rate Collection Agency (executive agency of the Department of Finance and Personnel) and the Construction Service (Department of Finance and Personnel Core).

None of the senior staff of PSNI undertook any transactions during the year.

Foreword to the Annual Financial Statements - Police Service Northern Ireland

Background information

The Police (Northern Ireland) Act 2000 and subsequent amendments in the Police (Northern Ireland) Act 2003, made specific provision about policing in Northern Ireland. Section 12(4) of the Act, as amended by Section 7 of the 2003 Act, refers specifically to the requirement for the Chief Constable to submit the statement of accounts to the Northern Ireland Policing Board (in regard to amounts put at disposal of the Chief Constable by the Policing Board) within such period after the end of the financial year to which they relate as the Secretary of State may determine. This is to allow the Policing Board to meet their own specific requirements under Section 12(1)(a) of the Act.

The Police Service of Northern Ireland (PSNI) exists to provide effective, high quality and professional policing to all of the people living in the Province. It aims to do this by working closely with the many and diverse communities that make up society in Northern Ireland. The key themes, which continually drive forward the development of policing services, are partnership and co-operation, both with the community served and with other agencies in the private, public and voluntary sectors. All of this is done against a background of ongoing change and improvements and with a determination to make best use of finite resources, whether financial or human, to provide the best value services possible.

The Financial Statements have been prepared in a form directed by the Northern Ireland Office on behalf of the Secretary of State for Northern Ireland, and are in accordance with Section 12(3) of Part 2 to the Police (Northern Ireland) Act 2000 and subsequent amendments made by the Police (Northern Ireland) Act 2003.

Results for the year

The Income and Expenditure Account is set out on page 34 and shows a deficit for the year of £51,611,000 including £6,272,000 for an exceptional item in respect of pension provisions (see notes 7 and 13) and before crediting £10,644,000 in respect of the notional cost of capital. An amount of £40,967,000 was transferred from reserves. The exceptional item, the accruing costs of the PSNI Civilian Pension Scheme, will be discharged in the financial year ended 31 March 2006 by way of a Government Grant which is not accounted for in this year's financial statements.

Fixed assets

Details of the movement in fixed assets are set out in Note 9 to the Financial Statements. There are no significant differences between the market values and book values of land and buildings.

Research and development

PSNI has no activities in the field of research and development.

Future developments

More than five years on from the publication of the Independent Commission's Report on Policing, and three years after the establishment of the Policing Board, groundbreaking progress has been made.

The majority of the Patten Recommendations have now been implemented. All of the accountability mechanisms are in place and former Patten Commissioner Kathy O'Toole has commented that the PSNI is now the most accountable police service in the world.

The Northern Ireland Policing Plan is one of the most important elements of those accountability systems. The Plan's objectives, which have been developed in consultation with the community, form the strategic framework from which the police will work to make Northern Ireland safer for all.

The Policing Plans for both Northern Ireland and local districts, restructuring within the organisation, the implementation of the National Intelligence Model and the adoption of problem solving policing have all led to a more effective and efficient policing service.

The results of improved police performance are substantial.

Real inroads have been made in tackling crime. Figures for 2004-2005 show that recorded crime has fallen by 7.7%, building on the solid 10.2% reduction last year, to produce an overall decrease of 17.1% in the last two years. This means there were 9,829 fewer crimes last year as a result of good police work.

However, while overall crime figures have dropped, there is work to be done in tackling those crimes that have increased, including hate crime. More resources will be targeted at preventing this crime and further support will be given to the many initiatives, which have been developed to protect, advise and support victims and potential victims of hate crime.

There is also work to be done in tackling the fear of crime. While crime rates are decreasing, fear of crime is increasing. The police, media, politicians, and community groups all have a role to play in dealing with this issue. This Policing Plan sets out clear objectives and targets for the PSNI in order to reduce the fear of crime particularly amongst those who feel most vulnerable.

A newly established special unit will begin its work to examine all unresolved deaths in Northern Ireland related to the security situation during the period from 1969 to 1998. This unit will sit within Crime Operations Department and will be headed by a retired Metropolitan Police Commander.

There are other challenges in the year ahead. Public expectation about the service provided by the police has increased and there is a need to provide a better service, albeit within finite resources. This means using the resources available to us in a more effective way.

District Commanders and others will continue to work closely with local communities to prioritise resources where they are most needed. Support from local communities through the District Policing Partnerships remains central to ensuring the police can provide safer streets and communities for all.

Other issues impacting upon how resources are used will arise throughout the year. The PSNI will look to implement an agreed Estate Strategy and commence the phased release of 807 members of the Full-Time Reserve over an 18-month period. In addition, consideration will be given how we best manage resources taking on board the work underway in the Review of Public Administration.

The PSNI is up to the challenges ahead. The former Oversight Commissioner Tom Constantine has said: "Some of the brightest young police leaders anywhere in the world are in Northern Ireland".

The PSNI will work hard to achieve the objectives contained in the Policing Plan. The Police Service looks forward to continued support from communities to build on the good work already achieved and remains committed to working with all communities to make Northern Ireland safer for everyone through professional, progressive policing.

Post balance sheet event

There have been no material post balance sheet events.

Charitable donations

During the year £50,000 was contributed to the Police Memorial Trust in memory of Police Officers killed in the line of duty. PSNI made no other charitable or political donations during the year.

Chief Officers

The posts held by the Chief Officers who are members of the Chief Constable's Forum are detailed in Note 4 to the Financial Statements.

Disabled persons

PSNI is an equal opportunity employer and took full cognisance of the Northern Ireland Civil Service Code of Practice on the employment of people with disabilities.

Employee involvement

PSNI maintains regular communications and contact with managers and staff through meetings, team briefings, seminars, circulars, information bulletins and staff newsletters. It also has well established arrangements for formal consultation with recognised Trade Union representatives on all significant developments affecting staff.

Health and safety

PSNI is committed to providing for staff an environment that is as far as possible safe and free from risk to health. In line with this commitment, the relevant legislation was complied with.

Prompt payment policy

PSNI is committed to the prompt payment of bills for goods and services received in accordance with the Government's Better Payments Practice Code and British Standard BS 7890 'Achieving Good Payment Performance in Commercial Transactions'. Unless otherwise stated in the contract, payment was due within 30 days of the receipt of the goods or services or presentation of a valid invoice or similar demand, whichever is later. PSNI paid 88% of all invoices within 30 days of the date on which they were registered for payment during the period.

Interest rate and currency risk

PSNI has no borrowings and relies primarily on Departmental grants for its cash requirements, and is therefore not exposed to liquidity risks. It also has no material deposits. As all significant assets and liabilities are determined in sterling it is not exposed to material interest rate risk or currency risk.

Company directorships

Chief Officers held no company directorships or other significant interests which conflicted with their management responsibilities.

Audit services

The accounts of the Police Service of Northern Ireland are required to be audited by the Comptroller and Auditor General who is responsible for laying the accounts before both Houses of Parliament at Westminster. The audit fees for this year are £65,000 (2003-2004 - £81,200). This includes the audit fees in respect of the Police Pension Scheme, the Police Fund and the Police Property Fund.

Chief Constable's Annual Report

A certified copy of these Annual Financial Statements will be included on the PSNI's website as an addendum to the Chief Constable's 2004-2005 Annual Report.

Police Fund, Police Property Fund and Police Pension Scheme

Financial Statements for the Police Fund, Police Property Fund and Police Pension Scheme are prepared separately.

Sir Hugh Orde
Chief Constable
Police Service of Northern Ireland

25 October 2005

Statement of responsibilities of the Police Service of Northern Ireland and the Chief Constable

Main financial statements

Under Part 2, Sections 12(1), 12(2) and 12(3) of the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003, the Chief Constable of the Police Service of Northern Ireland is required to prepare a statement of accounts on behalf of the Northern Ireland Policing Board, in the form and on the basis directed by the Secretary of State. The annual financial statements are prepared on an accruals basis and must give a true and fair view of the income and expenditure, total recognised gains and losses and cash flows for the financial year and the balances held at the year end. In preparing the accounts, the Chief Constable of the PSNI is required to:

- Observe the accounts direction issued by the Northern Ireland Office, 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 have been followed and disclose and explain any material departures in the annual financial statements; and
- Prepare the annual financial statements on the going concern basis.

Role of the Chief Constable of Police Service of Northern Ireland as Accounting Officer for Police Grant

The Accounting Officer for the Northern Ireland Office designated the Chief Constable of the Police Service of Northern Ireland as Accounting Officer for the Police Service of Northern Ireland. The Chief Constable's relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officer Memorandum issued by HM Treasury and published in Government Accounting.

Statement on Internal Control - Police Service of Northern Ireland

Scope of responsibility

As Accounting Officer for the Police Service of Northern Ireland, I have responsibility for maintaining a sound system of internal control that supports the achievement of PSNI's policies, aims and objectives, set by the Northern Ireland Policing Board, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

I am directly accountable to the Accounting Officer of the Northern Ireland Office and may be called upon to appear before the Public Accounts Committee. The responsibilities of an Accounting Officer are set out in the Police Act 2000 and in the HM Treasury memorandum 'Responsibilities of an NDPB Accounting Officer'.

The purpose of the system of internal control

The 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 organisational 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 PSNI for the year ended 31 March 2005 and up to the date of approval of the annual financial statements, and accords with Treasury guidance.

Capacity to handle risk

All Chief Officers and Senior Managers, together with the Audit and Risk Committee, have played an important role in providing leadership to the risk management process. In addition, training has been provided to staff throughout the organisation to ensure that staff are equipped to manage risk. During the year, the methodology used for assessing both the impact and likelihood of risk has been reviewed and refined in order to make it more objective. Representatives from Departments and District Command Units (DCU's) have been trained in this revised methodology.

The risk and control framework

A Risk Policy Framework document has been prepared and issued to the organisation. This explains the underlying approach to risk management, documents the roles and responsibilities of the Chief Constable, Chief Officers and other relevant parties including line management. In addition, it also includes details of the monitoring and reporting arrangements.

With the publication of the Policing Plan and as part of the development of a fully integrated planning process, all Departments and DCU's reviewed their risk registers in light of priorities selected for 2004-2005. A Corporate Risk Register has been in place to highlight the most significant strategic risks facing the organisation for 2004-2005. The Register is currently being revised and updated to take account of the new priorities for 2005-2006. The key risks have been highlighted and grouped and will be prioritised before being approved by Chief Officers.

Internal Audit has recently undertaken a review of the Corporate Risk Register. A number of recommendations have been made, which should enhance the existing arrangements for considering risk at the corporate level.

Stewardship reporting is a key element of ensuring accountability and ownership of risks and their management within the organisation. All Chief Officers are required to sign a Stewardship Statement on a half yearly basis to confirm that over a period of time, they have reviewed the risk register for their respective areas of responsibility and assessed the management of the risks identified. The signing of the Stewardship Statements helps to provide assurance that all risks are being managed in the organisation.

The Audit and Risk Committee is responsible for monitoring the PSNI's risk management and internal controls on a regular basis during the year. This Committee receives reports from internal and external audit and, in addition, reports presented on the risk management process. PSNI is also subject to regular review by Her Majesty's Inspectorate of Constabulary and other independent monitoring bodies, adding to the framework of assurance. The Committee was strengthened during the year by the appointment of two Non-Executive Directors.

A significant Change Programme is still underway and the risk and control framework will continue to develop to reflect a changing environment. In particular, risk management is being incorporated more fully into the corporate planning and decision-making processes of the organisation and will provide increased assurance that significant risks will be identified, evaluated and appropriately controlled in the organisation.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the Chief Officers within the organisation 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. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Chief Officers and the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

As Accounting Officer I have received reports from the Chair of the Audit and Risk Committee concerning internal control. PSNI has developed a framework to give assurance in management of risk across the organisation.

During the year Deloitte provided an Internal Audit Service in accordance with the standards defined in the Government Internal Audit Manual. They submitted regular reports together with recommendations for improvement. In addition, the Head of Internal Audit has issued an independent opinion on the adequacy and effectiveness of the organisation's system of internal control.

Last year, significant weaknesses were reported in the allowances system which governs the terms and conditions of services for police and civilian staff. Although good progress has been made in addressing these weaknesses during 2004-2005, significant work remains to be undertaken, which is being progressed and monitored by a project plan during 2005-2006. Progress has also been made in developing a framework for disaster recovery planning across PSNI systems, and significant resources are required and are being applied during 2005-2006 to ensure the arrangements are operationally effective.

Sir Hugh Orde
Chief Constable
Police Service of Northern Ireland

25 October 2005

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

I certify that I have audited the financial statements on pages 34 to 51 under the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 38 to 40.

Respective responsibilities of the Police Service of Northern Ireland, the Chief Constable and the Auditor

As described on page 29, the Chief Constable of the Police Service of Northern Ireland is responsible for the preparation of the financial statements in accordance with the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003 and directions made thereunder by the Secretary of State for Northern Ireland and for ensuring the regularity of financial transactions. The Chief Constable is also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003 and directions made thereunder by the Secretary of State for Northern Ireland, and 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 if, in my opinion, the Foreword is not consistent with the financial statements, if the Police Service of Northern Ireland has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 30 to 31 reflects the Police Service of Northern Ireland's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Chief Constable's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Police Service of Northern Ireland's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Police Service of Northern Ireland in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Police Service of Northern Ireland'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 are free from material misstatement, whether caused by error, or by fraud or other irregularity 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 have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion

- the financial statements give a true and fair view of the state of affairs of the Police Service of Northern Ireland at 31 March 2005 and of the deficit, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003 and directions made thereunder by the Secretary of State for Northern Ireland; 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

8 November 2005

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

Income and Expenditure account for the year ended 31 March 2005 - Police Service of Northern Ireland

	Notes	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Income			
Grant from Northern Ireland Office			
Request for Resources 1			
Core Grant	2	662,546	653,782
Patten Grant – Severance	2	26,648	10,191
Patten Grant – Non Severance	2	17,428	13,322
		706,622	677,295
Other Income			
Release from Capital Grant Reserve	14	28,241	25,232
Operating income	3	2,892	3,843
		737,755	706,370
Expenditure			
Staff costs	4	550,211	537,651
Other operating costs	5	194,093	170,368
Notional cost of capital	6	10,644	10,975
Depreciation	9	27,077	23,140
		782,025	742,134
Deficit before exceptional item		(44,270)	(35,764)
Exceptional item: pension liability	7	(6,272)	(24,810)
Deficit before interest		(50,542)	(60,574)
Interest paid and similar charges	8	(1,069)	(1,663)
Deficit for the year		(51,611)	(62,237)
Credit in respect of notional cost of capital	6	10,644	10,975
Amount transferred from reserves	14	(40,967)	(51,262)

Statement of total recognised gains and losses for the year ended 31 March 2005 - Police Service of Northern Ireland

	Note	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Deficit for the year		(51,611)	(62,237)
Unrealised surplus on revaluation of fixed assets	14	<u>40,592</u>	<u>15,897</u>
Total recognised losses for the year		<u>(11,019)</u>	<u>(46,340)</u>

The notes on pages 38 to 51 form part of this account.

All amounts above relate to continuing activities.

Balance Sheet as at 31 March 2005 - Police Service of Northern Ireland

	Notes	31 March 2005 £000	31 March 2004 £000
Fixed assets	9	526,356	473,847
Current assets			
Stocks	10	6,252	5,925
Debtors	11	19,335	15,082
Bank and Cash	15.2	10,049	6,683
		35,636	27,690
Creditors: amounts falling due within one year	12	(47,090)	(41,845)
Net current liabilities		(11,454)	(14,155)
Total assets less current liabilities		514,902	459,692
Creditors: amounts falling due after more than one year			
Provision for liabilities and charges	13	(204,499)	(161,877)
Total assets less total liabilities		310,403	297,815
Financed by			
Capital and reserves			
General fund	14	(215,953)	(176,032)
Capital grant reserve	14	526,356	473,847
		310,403	297,815

The notes on pages 38 to 51 form part of this account.

Sir Hugh Orde
Chief Constable
Police Service of Northern Ireland

25 October 2005

Cashflow Statement for the year ended 31 March 2005 - Police Service of Northern Ireland

	Notes	31 March 2005 £000	31 March 2004 £000
Net cash inflow/(outflow) from operating activities	15.1	2,878	(803)
Capital expenditure			
Purchase of tangible fixed assets	15.3	(41,755)	(29,230)
Proceeds from disposal of fixed assets		1,039	832
Net cash outflow from Capital Expenditure		(40,716)	(28,398)
Financing			
Capital Grant to acquire fixed assets	15.3	41,204	29,068
Net Cash inflow from financing		41,204	29,068
Increase/(decrease) in cash	15.2	3,366	(133)

The notes on pages 38 to 51 form part of this account.

Notes to the Annual Financial Statements for the year ended 31 March 2005 - Police Service of Northern Ireland

1 Statement of principal accounting policies

1.1 Accounting Convention

The financial statements have been prepared in accordance with the historical cost convention, modified to include the revaluation of fixed assets at their value to the business by reference to their current costs. Without limiting the information given, the financial statements comply with the accounting and disclosure requirements of the Companies (Northern Ireland) Order 1986, the accounting standards issued or adopted by the Accounting Standards Board and accounting and disclosure requirements issued by HM Treasury.

1.2 Fixed Assets and depreciation

Fixed assets are stated at lower of replacement cost and recoverable amount. All properties are revalued in full every 5 years by District Valuers of the Valuation and Lands Agency. Assets in the course of construction are not revalued. The cost or revalued amount is depreciated at fixed rates on a straight line basis over the expected useful lives of the assets. Land and assets in the course of construction are not depreciated. Depreciation rates are as follows

Buildings	50 years
Operational	5 to 40 years
Vehicles	4 to 10 years
IT and Communications	3 to 10 years

Vehicles commence depreciating on the date of commissioning or six months after purchase, whichever occurs first. The estimated useful lives of fixed assets are reviewed regularly and the minimum value for capitalisation is £5,000 for an individual asset, or £1,000 for an asset forming part of a significant asset group. The majority of firearms are not capitalised as they fall outside these threshold limits.

1.3 Intangible assets

There are no intangible assets recognised in the financial statements. Software licences are treated as revenue expenditure. This treatment is currently under review.

1.4 Notional cost of capital

The income and expenditure account bears a non-cash charge for interest relating to the use of capital. The basis of the charge is 3.5% of the average capital employed during the year, defined as total assets less total liabilities.

1.5 Pension costs

Pension benefits are provided through the following defined benefit pension schemes.

Direct civilian employees were ordinary members of the PSNI (Civilian) Pension Scheme that was analogous to the Principal Civil Service Pension Scheme (NI). Legislation was approved on 8 March 2004 to add PSNI civilian direct recruits to the PCSPS(NI) as a Schedule 1 member, with effect from September 2002. It is expected the PSNI Scheme will be wound up and the transfer made during 2005-2006. This is in keeping with current HM Government policy to close all 'by analogy' schemes and transfer them into the main PCSPS schemes.

A number of PSNI's employees are Civil Servants seconded from the Department of Finance and Personnel (NI). The Principal Civil Service Pension Scheme Northern Ireland (PCSPS - NI) is an unfunded defined benefit scheme which produces its own resource accounts, but PSNI is unable to identify its share of the underlying assets and liabilities. The most up to date actuarial valuation was carried out as at 31 March 2003 and details of this valuation are available in the PCSPS (NI) resource accounts.

Police officers are members of the PSNI Pension Scheme. PSNI contributes a percentage of pensionable earnings towards their superannuation, at the Accruing Superannuation Liability Charge (ASLC) rates, determined by the Government Actuary and advised by HM Treasury. The ASLC rate is fixed at 20.25%.

Separate pension scheme statements have been prepared for the PSNI (Police) Pension Scheme for the year ended 31 March 2005.

1.6 Value Added Tax

Income and expenditure is shown exclusive of Value Added Tax, which in most cases is recoverable from HM Customs and Excise, in accordance with Section 20 of the Value Added Tax Act 1983. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets.

1.7 Stock

Stock is stated at the lower of cost and net realisable value.

1.8 Provision for Severance Programmes

Provision is made for the costs of providing severance payments to police officers leaving the service under the Voluntary Severance or Full Time Reserve programmes based on anticipated numbers of leavers, their age and length of service.

1.9 Provision for compensation claims

A provision for compensation claims is charged against operating costs when it is assessed that a liability is likely to arise based on average amounts paid in respect of each category of claim.

1.10 Provision for Early Retirement Costs

PSNI is required to meet the additional cost of benefits beyond the normal PCSPS(NI) benefits in respect of employees who retire early, from the date of their retirement until they reach normal pensionable age.

1.11 Provision for Pension Liability

Legislation was approved on 8 March 2004 to add PSNI civilian direct recruits to the PCSPS(NI) as a Schedule 1 member, with effect from the 30 September 2002. It is expected the PSNI Scheme will be wound up and the transfer made during 2005-2006. This is in keeping with current HM Government policy to close all 'by analogy' schemes and transfer them into the main PCSPS schemes.

An actuarial valuation of the scheme was carried out at 31 March 2005 based on 30 September 2002 as the effective date of transfer. PSNI has provided for this cost as an exceptional item.

1.12 Provision for Stock

As part of a managed service contract, PSNI has agreed to purchase any stock in possession of the contractor at the end of the contract. PSNI has estimated the amount of stock which may need to be purchased back, based on usage levels. PSNI have provided in full for this amount.

1.13 Leases

Rentals paid under operating leases are charged to operating costs on a straight-line basis over the term of the lease.

1.14 Government grants

Grants for capital purposes are credited to a Capital Grant Reserve and released to the Income and Expenditure Account over the expected useful lives of the assets.

1.15 Third party assets

PSNI holds as custodian certain assets belonging to third parties. These are not recognised in the financial statements as the PSNI does not have a direct beneficial interest in them.

2 Reconciliation of grants

	Year ended 31 March 2005		Year ended 31 March 2004	
	£000	£000	£000	£000
Main grant from Northern Ireland Office	694,228		668,686	
Less amount transferred to deferred capital	(31,682)		(14,904)	
		662,546		653,782
Patten grant – Severance		26,648		10,191
Patten grant – Non severance	26,950		27,486	
Less amount transferred to deferred capital	(9,522)		(14,164)	
		17,428		13,322
		706,622		677,295
Add amount transferred to deferred capital (see note 14)		41,204		29,068
Total grant from NIO		747,826		706,363

3 Operating income

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Fees for firearms certificates, permits and accident reports	944	1,124
Police transport	314	313
Profit on disposal of fixed assets	94	0
Other	1,540	2,406
	2,892	3,843

4 Staff costs

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Wages and salaries	439,903	430,679
Social security costs	40,070	39,379
Pension costs (employer contribution)	60,445	59,233
Secondments/Agency	9,793	8,360
	550,211	537,651

The average number of employees over the year is as follows

	Number	Number
Chief Officers	11	12
PSNI (civilian)	3,229	3,234
PSNI (police officers)	8,928	8,900
PSNI (part-time reserve)	813	902
Secondments	2	2
Agency	515	383
	13,498	13,433

Chief Officer Remuneration

Remuneration and pension information for the year ended 31 March 2005 is provided for Chief Officers of the PSNI as follows

	Sex	Pay and allowances 2004-2005	Pay and allowances 2003-2004
Chief Constable	M	164,450	151,631
Deputy Chief Constable	M	141,703	130,418
ACC South (Left on secondment 18 August 2003)	M	0	36,893
Acting ACC South (Period 14 July 2003 - 5 October 2003)*	M	0	20,226
ACC North (Transferred to ACC Crime 17 August 2003)	M	0	36,893
Acting ACC North (Period 18 August 2003 - 5 October 2003)*	M	0	13,129
ACC Rural	M	100,720	45,389
ACC Crime (Left 17 August 2003)	M	0	44,524
ACC Crime (Appointed 18 August 2003)	M	101,768	52,851
Acting ACC Urban (Period 1 April 2003 - 5 October 2003)	F	0	43,907
ACC Urban (Appointed 6 October 2003)	M	100,123	45,668
ACC Operational Support (Appointed 1 September 2002)**	M	100,720	96,929
ACC Criminal Justice (Acting for period 6 October 2003 - 18 May 2004 and Appointed 19 May 2004)	F	86,583	****
ACC Operations (Transferred to ACC Urban 5 October 2003)**	M	0	44,076
Acting ACC Operations (Period 6 October 2003 - 11 October 2004)**	M	42,561	32,514
ACC on Strategic Command Course (Period 1 May 2003 - 5 October 2003)	M	0	34,834
ACC involved in training project (Period 16 January 2004 - 31 March 2004)	M	0	19,601
Legal Adviser	M	73,311	71,580
Director of Finance & Support Services***	M	86,349	71,562
Head of Media & Public Relations (Retired 9 April 2004)***	M	1,642	65,674
Head of Media & Public Relations (Appointed 21 June 2004)	F	57,601	0
Director of Human Resources ***	M	87,220	87,220

* ACC North and ACC South amalgamated to ACC Rural on 5 October 2003 following a reorganisation.

** Previous Corporate Development and Operations Departments now incorporated under a new Operational Support Department.

*** These salary figures do not include pay increments and bonuses which had not been approved at the date of signing.

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

None of the Chief Officers listed above received any benefits in kind during the year to 31 March 2005.

**** Consent to disclose withheld.

Chief Officer Pension Benefits

	Real pension increase at age 60	Accrued pension at age 60	CETV at 31/03/05	CETV at 31/03/04	Real increase in CETV
Chief Constable	11,271	97,844	1,127,049	936,017	110,324
Deputy Chief Constable	8,556	64,893	863,160	724,410	75,741
ACC Rural	7,682	49,966	557,874	443,242	75,328
ACC Crime	4,334	43,679	632,313	551,680	36,061
ACC Urban	5,233	34,337	473,914	393,366	58,133
ACC Operational Support	5,674	40,355	487,544	406,488	44,502
ACC Criminal Justice (Acting for Period 6/10/03 – 18/5/04 and Appointed 19/05/04)	5,728	33,257	404,764	327,806	49,387
Acting ACC Operations (Period 6/10/03 – 11/10/04)	4,987	44,875	596,456	499,504	57,999
Legal Adviser	846	27,353	502,419	463,062	14,488
Director of Finance & Support Services	5,899	29,000	452,454	338,598	90,736
Head of Media & Public Relations (Retired 9/04/04)	17	3,805	62,722	62,345	282
Head of Media & Public Relations (Appointed 21/06/04)	847	847	6,368	-	4,083
Director of Human Resources	792	10,596	160,353	139,467	10,680

Pension benefits are provided through three pension schemes depending on the employment status of the individual. Details are set out overleaf.

The Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by an officer at a particular point in time. The benefits valued are the officer's accrued benefits and any contingent spouse's pension payable from the scheme. It is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the officer leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the officer has accrued as a consequence of their total PSNI service. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The real increase in the value of the CETV takes account of the increase in accrued pension due to inflation and contributions paid by the officer and is calculated using common market valuation factors for the start and end of the period.

Principal Civil Service Pension Scheme (NI)

Pension benefits for PSNI Direct Recruits and Civil Servants seconded from DFP are provided through the Principal Civil Service Pension Scheme (NI) (PCSPS (NI)). From 1 October 2002, employees may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium and classic plus). New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder based arrangement with a significant employer contribution (partnership pension account).

For 2004-2005, employers' contributions of £6,539,220 were paid to the PCSPS (NI) (2003-2004 £6,541,958) at one of four rates in the range 12 to 18% of pensionable pay, based on salary bands. From 1 April 2005 these rates have increased as a result of the latest actuarial valuation to between 16.5% and 23.5%. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. No employers' contributions were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, no employer contributions of 0.8% of pensionable pay, were payable to the PCSPS(NI) to cover the cost of future provision of lump sum benefits on death in service and ill health retirement of these employees.

There were no contributions due to the partnership pension providers at the balance sheet date. There were no contributions prepaid at that date.

Police service of Northern Ireland (civilian) pension scheme

Pension benefits for direct recruits of PSNI were previously provided through the PSNI (Civilian) pension scheme, which was analogous to the PCSPS (NI) scheme, and is described in the above paragraph.

Legislation was approved on 8 March 2004 to add PSNI civilian direct recruits to the employments listed in Schedule 1 to the Superannuation (Northern Ireland) Order 1972 with effect from 30 September 2002. However it is expected the scheme will be wound up and the transfer made during 2005-2006.

An actuarial valuation of the Police Service of Northern Ireland (Civilian) Pension Scheme was carried out at 31 March 2005 based on 30 September 2002 as the effective date of the transfer, by the Government Actuary. The present value of the scheme liabilities has been estimated at £75 million. In accordance with the NDPB Accounting Guidance, the scheme liability has been discounted at 3.5%.

PSNI Pension Scheme

Pension benefits for PSNI officers including full time reserves are provided through the PSNI Pension Scheme. This is a statutory scheme that provides benefits on an 'Average Pensionable Pay (APP)' basis at the retirement age, which is compulsory depending on the officer's rank. Every officer is required to retire on attaining the age of 55 for rank Constable/Reserve Constable/ Sergeant (age 57 for officers serving before 5.7.72), on an increasing scale up to age 65 for rank above Chief Superintendent. Constable/Sergeant ranks may however apply for up to five yearly extensions on attaining compulsory retirement age.

For 2004-2005, employers' contributions of £53,906,243 were paid to the PSNI Pension Scheme (2003-2004 - £52,695,167). To qualify for an ordinary retirement pension, an officer has to complete 25 years service and attain 50 years of age. Benefits accrue at the rate of 1/60th of APP for each year of service up to 20 years, and 2/60th for each year thereafter, up to a maximum of 40/60th of APP. There is an option for a lump sum to be paid on retirement, if the officer elects to give up (commute) up to 25% of the pension. Actuarial tables are used to calculate the lump sum. Members pay contributions of 11% of basic pay. Pensions increase in line with the Retail Prices Index. On death, pensions are payable to the surviving spouse or children, subject to provisions within the scheme. On death in service, that is not as a result of an injury on duty (IOD), the scheme pays a lump sum benefit of twice pensionable pay, and there are also pension benefits for the spouse and/or children of the deceased. On death as a result of IOD, or death within 12 months of retiring as a result of an injury, a lump sum benefit of 5 times pensionable pay is payable, subject to scheme conditions. Medical retirement is possible in the event of serious

ill health. Officers with less than 2 years service receive a lump sum benefit (gratuity), and those with more than 2 years service receive an ill-health pension, depending on the number of years of actual pensionable service.

Severance payments

Severance Payments were made from 1 January 2001 to officers leaving the PSNI under the Voluntary Early Retirement and Severance Scheme for the PSNI. The Scheme was developed in line with the recommendations of the Independent Commission on Policing (Patten) and it was necessary, in order to fulfil Government commitments, to permit officers to leave from the planned date of 1 January 2001. The total of payments made in the year to 31 March 2005 was £25.4m. HM Treasury approved the payments

5 Other operating costs

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Transport	10,568	16,838
IT and communications	26,835	31,037
Accommodation services	35,518	29,102
General expenses	44,702	44,691
Travel, subsistence and relocation	10,132	11,286
Audit fees (Actual fee for 2003-2004 was £81,200, although only £56,000 was provided for)	90	42
Hospitality	103	88
Loss on disposal fixed assets	0	24
Downward revaluation in fixed assets (see note 9)	1,258	2,068
Net Increase in Provisions excluding exceptional item for pensions liability (see note 13)	63,630	34,294
Charges for operating leases	510	480
photocopiers	747	418
property		
	194,093	170,368

6 Notional cost of capital

Total assets less total liabilities at 31 March 2004	297,815	329,344
Total assets less total liabilities at 31 March 2005	310,403	297,815
Cost of capital (3.5% of 2004-2005 average)	10,644	10,975

7 Exceptional item

Legislation was approved on 8 March 2004 to add PSNI civilian direct recruits to the employments listed in Schedule 1 to the Superannuation (Northern Ireland) Order 1972 with effect from 30 September 2002, however it is expected the scheme will be wound up and the transfer made during 2005/2006. The accruing cost of the PSNI Civilian Pension Scheme has been estimated by the Government Actuaries as £75.3 million at 31 March 2005. This amount includes interest of £10.7 million which will continue to accrue until the date of payment to the Department of Finance and Personnel (DFP). The accruing cost has been recalculated since 31 March 2004 when it stood at £69.0 million, an increase of £6,272,000. In accordance with the NDPB Accounting Guidance, the scheme liability has been discounted at 3.5%.

8 Interest paid and similar charges

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Unwind of discount on provisions	1,069	1,663

9 Fixed assets

	Land & Buildings	Assets in Course of Construction	Operational (inc Plant & Equip)	Vehicles (inc Aircraft)	IT & Comms	Total
Cost or valuation	£000	£000	£000	£000	£000	£000
At 1 April 2004	449,237	12,875	8,963	46,802	69,972	587,849
Additions	6,944	11,899	903	13,186	8,272	41,204
Disposals	(570)	0	0	(3,788)	(972)	(5,330)
Transfers	7,721	(12,653)	0	0	4,932	0
Revaluation below Historical Cost	0	0	0	(360)	(1,609)	(1,969)
Revaluation	40,091	0	157	808	147	41,203
At 31 March 2005	<u>503,423</u>	<u>12,121</u>	<u>10,023</u>	<u>56,648</u>	<u>80,742</u>	<u>662,957</u>
Depreciation						
At 1 April 2004	41,072	0	5,224	26,108	41,598	114,002
Charged in Year	12,190	0	556	6,579	7,752	27,077
Disposals	0	0	0	(3,424)	(954)	(4,378)
Revaluation below Historical Cost	0	0	0	0	(711)	(711)
Revaluation	0	0	90	426	95	611
At 31 March 2005	<u>53,262</u>	<u>0</u>	<u>5,870</u>	<u>29,689</u>	<u>47,780</u>	<u>136,601</u>
Net Book Value						
At 31 March 2005	<u>450,161</u>	<u>12,121</u>	<u>4,153</u>	<u>26,959</u>	<u>32,962</u>	<u>526,356</u>
At 31 March 2004	<u>408,165</u>	<u>12,875</u>	<u>3,739</u>	<u>20,694</u>	<u>28,374</u>	<u>473,847</u>

The Valuation and Lands Agency carried out a full valuation of land and buildings on 31 March 2005. The basis of valuation was as follows

- Police Stations and hill top installations – depreciated replacement cost
- Offices and stores – existing use value
- Surplus land and buildings and property held for development – open market value

The Valuation and Lands Agency is considered an external valuer as defined by the Royal Institution of Chartered Surveyors Appraisal and Valuation Manual, and the valuations have been made in accordance with this Manual.

Other tangible fixed assets were revalued on 31 March 2005 using latest available indices.

Assets in the course of construction were valued at total expenditure incurred.

Included within land and buildings is long leasehold property with a net book value of £57,632,534 and surplus assets with a net book value of £3,485,000.

The following non depreciable assets are included in the note above at a cost of:

Land	-	£88,815,000
Assets in course of construction	-	£12,121,000

The Aircraft was previously included under non-depreciable assets. For the year ended 31 March 2005, the Aircraft has been valued at the lower of replacement cost or recoverable amount and will be depreciated over its remaining life.

10 Stocks

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
General stores	2,857	3,702
Transport Services stores	1,075	840
Information and Communication Services stores	1,410	514
Heating oil	383	339
Petrol, diesel, etc	527	530
	6,252	5,925

11 Debtors: amounts falling due within one year

Trade debtors	697	1,400
Other debtors	13,122	12,942
Prepayments and accrued income	5,516	740
	19,335	15,082

12 Creditors: amounts falling due within one year

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Trade creditors	11,939	13,468
Taxation and social security	14,269	12,536
Payroll accrual	13,090	12,537
Other creditors	7,792	3,304
	47,090	41,845

13 Provisions for liabilities and charges

	Voluntary and FTR Severance £000	Compensation Claims £000	Pension Liability £000	Stock £000	Total £000
At 1 April 2004	78,112	14,321	69,010	434	161,877
Utilised in Year	(25,367)	(2,982)	0	0	(28,349)
Provision not utilised	(2,130)	(1,153)	0	0	(3,283)
Discount	930	139	0	0	1,069
Increase in Provision	62,337	4,430	6,272	146	73,185
At 31 March 2005	113,882	14,755	75,282	580	204,499

Voluntary Severance Programme

The Secretary of State for Northern Ireland established a Voluntary Severance Scheme for PSNI Regular and Full Time Reserve Officers in July 2000. During the current year, 268 officers left the service. The provision is in respect of a further 611 officers estimated to leave during 2005-2006 to 2006-2007. As the schemes for future years have been approved but not yet commenced, the provision in respect of these years is subject to uncertainty and is based on estimates of numbers, ranks and profiles of officers who may apply and an average amount they may receive. HM Treasury is committed to funding the scheme. Please also refer to note 18 on contingent liabilities.

Full Time Reserve (FTR) Programme

The position on the Full Time Reserve was determined by Patten Recommendation 103 which stated that the future police service should not include a Full Time Reserve. In line with an undertaking given to the NIPB, the Chief Constable carried out a substantial security review and announced his decision on the future of the Full Time Reserve on 9 September 2004.

In summary, out of the 1,487 Full Time Reserve officers, 680 are being retained on the basis of three year contracts from 1 April 2005. The remaining officers are being released in a phased manner across an 18 month period from the termination of their contracts.

Compensation Claims

The compensation claim provision is analysed under three categories: injury claims, damage claims and legal fees. The following table shows the breakdown of the provision between these categories.

	Injury Claims £000	Damage claims £000	Legal Fees £000	Total £000
At 1 April 2004	8,889	98	5,334	14,321
Utilised in Year	(1,289)	(160)	(1,533)	(2,982)
Provision not utilised	(1,249)	86	10	(1,153)
Discount	86	2	51	139
Increase in Provision	1,232	235	2,963	4,430
At 31 March 2005	7,669	261	6,825	14,755

At the 31 March 2005 there were 3,363 'live' injury or wrongful acts claims and 199 'live' damage to property claims. Associated legal fees are also provided for.

Claims have varying life spans with claims involving personal injury mostly concluded within six years of receipt and claims for damage to property usually being concluded within one or two years of receipt. In deriving the above figures, assumptions have been made relating to the number of outstanding claims likely to attract compensation, the average claim value for the different claim types and likely timing of settlement. The data assumes that past trends will persist with only marginal fluctuations and any deviations from this pattern may have a material impact on actual claims settled. The provision for years one to six have been discounted at the HM Treasury rate of 3.5%.

This note, together with note 18, discloses that the Service is involved in a number of legal cases. While these are being dealt with appropriately, ultimately damages may be awarded against the Service. We regularly review the outcome of these cases, to see if there are lessons to be learnt and to identify areas where we can improve our systems of internal control, if necessary.

Pension Liability

As noted under the exceptional item, legislation was approved on 8 March 2004 to add PSNI civilian direct recruits to the employments listed in Schedule 1 to the Superannuation (Northern Ireland) Order 1972 with effect from 30 September 2002, however it is expected the scheme will be wound up and the transfer made during 2005-2006.

The accruing cost of the PSNI Civilian Pension Scheme has been estimated by the Government Actuaries as £75.3 million at 30 September 2005. This amount includes interest of £10.7 million which will continue to accrue until the date of payment to Department of Finance and Personnel (DFP). The accruing cost has been recalculated since 31 March 2004 when it stood at £69.0 million. In accordance with the NDPB Accounting Guidance, the scheme liability has been discounted at 3.5%.

Stock

PSNI entered into a managed service contract for the ordering, supply, handling and accounting of uniform related items. The contractor purchased the total amount of uniform stock held by PSNI during the financial year. However as part of the contract, PSNI has agreed to purchase any stock in possession of the contractor at the end of the contract. It has been estimated, based on usage levels of the stock transferred, that £580,000 of stock initially transferred may not be issued by the end of the contract, and therefore this amount has been provided for in full.

14 Reconciliation of government funds

	General Capital Grant	
	Fund £000	Reserve £000
At 1 April 2004	(176,032)	473,847
Transfer from income and expenditure account	(40,967)	0
Adjustment for fixed asset disposal	1,046	(1,046)
Additions in Year	0	41,204
Surplus on revaluation of fixed assets	0	40,592
Release to Income and Expenditure account	0	(28,241)
At 31 March 2005	(215,953)	526,356

15 Notes to cash flow statement

15.1 Reconciliation of operating deficit to net cash outflow from operating activities

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Deficit for the Year before interest and exceptional item	(44,270)	(35,764)
Interest	(1,069)	(1,663)
Depreciation	27,077	23,140
(Profit)/loss on disposal of fixed assets	(94)	24
Notional cost of capital	10,644	10,975
Release from Capital Grant Reserve	(28,241)	(25,232)
Revaluation below Historical Cost	1,258	2,068
(Increase)/decrease in stock	(327)	5,714
(Increase)/decrease in debtors	(4,246)	1,383
Increase/(decrease) in creditors	5,796	(5,188)
Increase in provisions	69,902	59,104
Provisions used	(28,349)	(12,217)
Unwinding of discount	1,069	1,663
Adjustment for pension provision (see note 13)	(6,272)	(24,810)
Net cash inflow/(outflow) from operating activities	2,878	(803)

15.2 Reconciliation of net cash inflow/(outflow) to movement in net debt

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Cash in bank at 1 April 2004	6,683	6,816
Net cash inflow/(outflow)	3,366	(133)
Cash in bank at 31 March 2005	10,049	6,683

15.3 Reconciliation of capital grant to acquire fixed assets to purchase of tangible fixed assets

Purchase tangible fixed assets	41,755	29,230
Opening capital creditors	(2,299)	(2,806)
Closing capital creditors	1,748	2,299
Opening capital debtors	0	345
Closing capital debtors	0	0
Capital grant to acquire fixed assets	41,204	29,068

16 Capital commitments

Contracted	43,725	40,856
Authorised but not contracted	29,956	29,870
	73,681	70,726

17 Obligations under leases

Annual commitments under non-cancellable operating leases are as follows

	Land and Buildings		Other	
	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Operating Leases which expire				
Within one year	46	102	130	194
In two to five years	301	265	126	14
In over five years	148	109	0	22
	495	476	256	230

18 Contingent liabilities

Voluntary severance

Details of the voluntary severance schemes beyond 2006-2007 have not yet been announced and are subject to a further degree of uncertainty, including levels of recruitment, levels of natural wastage and other operational circumstances.

Although uncertainty exists about future years, it is estimated that the voluntary severance scheme will extend to 2010-2011 with an additional 1,217 officers leaving under the scheme at an estimated cost of approximately £111 million. HM Treasury is committed to funding future agreed schemes.

Post Traumatic Stress Disorder Class Action

The PSNI and the Northern Ireland Policing Board are named defendants in a class action by 3,973 former and serving police officers. The case is listed for hearing in November 2005, and a selection process is underway to identify the lead cases.

Working Time Regulation Cases

Approximately 6,200 former and serving police officers and civilian staff have issued industrial tribunal applications against the Chief Constable, claiming that he has breached the terms of the Working Time Regulations. A hearing was completed in January 2005 in respect of the first case, on the issue of whether the application was brought in time. An appeal against the judgement has been lodged.

Claims resulting from Security Breaches

The Chief Constable is named Defendant from 321 current and ex-police officers, members of his civilian staff and family members, arising out of a breach of security. The action is still at an early stage, and no date is likely to be fixed for hearing until early 2006.

Due to the unusual nature of the three sets of claims outlined above, it is still not possible to identify from previous statistics, a scientific assessment of likely settlement rates or an average figure for settlement of each case.

19 Losses and special payments

Type	No of Cases	£000
Overpayments	13	3
Stores	504	305
Claims waived or abandoned	633	350
Special payments - compensation	504	1,359
Ex-Gratia payments	9	2
Fruitless payment and constructive losses	6	11

20 Related party disclosures

PSNI is a body of constables, funded through the NIPB which is a Non-Departmental Public Body of the NIO.

The NIO is regarded as a related party. During the year PSNI had a number of material transactions with the NIO and with other government departments and central government bodies. Most of these transactions have been with: the Forensic Science NI; the NI Prison Service (both executive agencies of the NIO); the Rate Collection Agency (executive agency of the Department of Finance and Personnel) and the Construction Service (Department of Finance and Personnel Core).

None of the senior staff of PSNI undertook any transactions during the year.

21 Third party assets

PSNI hold a number of bank accounts and sealed packages which contain evidence or proceeds of criminal activities. As these monies are not assets of the PSNI they are not included in these financial statements.

Following the outcome of investigations or court proceedings, the money is returned or paid to appropriate authorities.

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Bank Balances and Monetary Sealed Packages held	1,286	1,643

22 Intra government balances

Included in debtors and creditors are the following intra government balances as at 31 March 2005.

	Debtors: Amounts falling due within one year £000	Debtors: Amounts falling due after one year £000	Creditors: Amounts falling due within one year £000	Creditors: Amounts falling due after one year £000
NIO Core, its agencies and NDPBs	2,512	0	4,070	0
Other Central Government bodies	260	0	2,646	0
Local Authorities	5	0	27	0
NHS Trusts	132	0	0	0
Public corporations & trading funds	0	0	76	0
Bodies external to government	16,426	0	40,271	0
Total	19,335	0	47,090	0

Included in debtors and creditors are the following intra government balances as at 31 March 2004.

	Debtors: Amounts falling due within one year £000	Debtors: Amounts falling due after one year £000	Creditors: Amounts falling due within one year £000	Creditors: Amounts falling due after one year £000
NIO Core, its agencies and NDPBs	1,454	0	1,677	0
Other central government bodies	1,131	0	0	0
Local authorities	0	0	16	0
NHS Trusts	0	0	3	0
Public corporations and trading funds	0	0	22	0
Bodies external to government	12,497	0	40,127	0
Total	15,082	0	41,845	0

Report on the Police Pension Scheme

Introduction

The Police Service of Northern Ireland (PSNI) Police Pension Scheme is an unfunded defined benefit scheme. The regulations under which the scheme operates are the Pensions (Northern Ireland) Order 1995 and the RUC Pensions Regulation 1988 and subsequent amendments. The regulations are modified for members of the PSNI Full Time Reserve in accordance with the RUC Reserve (Full Time) Pension Regulations 1994 and subsequent amendments.

Every police trainee joining the PSNI becomes a member of the Pension Scheme as provided under the Police Trainee Regulation (Northern Ireland) 2001, and subsequently on appointment as a police officer will automatically become a member of the Pension Scheme. However, membership is not compulsory and officers may make other pension arrangements.

All police officers are given a booklet explaining the scheme at induction or training.

This is the second standalone Pension Scheme Statement for the Police Pension Scheme. The rationale of preparing pension scheme accounts is to avoid the detail required by FRS 17 (Retirement Benefits) from overshadowing and drawing attention away from the record of the police's core financial performance. Prior to these Scheme Statements, a Revenue Account and FRS 17 information was disclosed as part of the PSNI Annual Financial Statements.

The PSNI Police Pension Scheme is administered by the PSNI.

The Managers, advisers and employers for the Scheme are as follows:

Managers

Accounting Officer

Chief Constable
Police Service of Northern Ireland
Brooklyn
65 Knock Road
Belfast
BT5 6LE

Pension Scheme Administrator

Head of Pensions Branch
Police Service of Northern Ireland
River House
48 High Street
Belfast
BT1 2RU

Advisers

Pension Scheme Actuary

Government Actuary's Department
Finlaison House
15-17 Furnival Street
London
EC4A 1AB

Government Department

Northern Ireland Office
Castle Buildings
Belfast
BT4 3SG

Auditors

Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Bankers

Northern Bank
Donegall Square West
Belfast

The Scheme has no separate bank account. It uses the banking arrangements of the Police Service of Northern Ireland.

Employers

Principal Employer

Police Service of Northern Ireland
Brooklyn
65 Knock Road
Belfast
BT5 6LE

Changes to the Scheme

Pensions were increased by 2.8 % with effect from 1 April 2004. There have been no other changes to the scheme during the year.

Additional Voluntary Contributions and Stakeholder Pensions

The Secretary of State appointed Equitable Life and Standard Life as providers of the in-house Additional Voluntary Contribution (AVC) Scheme for Police Officers. This is legislated in Statutory Rules of Northern Ireland for the PSNI Pension Scheme. PSNI designated Standard Life as Stakeholder Pension Provider. PSNI have made known to staff the arrangements and provide a facility for staff to contribute through payroll if they so wish.

£109,000 contributions have been made by members of PSNI to the scheme during the year (see note 15).

Membership statistics

Details of the current membership of the Pension Scheme are as follows:

Active members

At 1 April 2004	8,932
New entrants	551
Transfers in	40
Retirements in the year	(567)
Transfers out	(8)
Deaths	(3)
Other leavers	(51)
At 31 March 2005	8894

Deferred Members

At 1 April 2004	531
Members leaving who have deferred pension rights	114
Members taking up deferred pension rights	(3)
At 31 March 2005	642

Pensioners in payment

	Members	Dependents	Total
At 1 April 2004	7,441	1,421	8,862
Members retiring in year at normal retirement age	50	0	50
Other retirements	679	0	679
New dependents	0	72	72
Cessations	(104)	(87)	(191)
At 31 March 2005	8,066	1,406	9,472

Compensation payments

At 1 April 2004	113	0	113
Members leaving under early retirement	22	0	22
Members reaching normal retirement age during the year	(4)	0	(4)
Other movements	0	0	0
At 31 March 2005	131	0	131

Going concern

The Balance Sheet at 31 March 2005 shows net liabilities of £4,221,912,000. This reflects the inclusion of liabilities falling due in future years which, to the extent that they are not to be met from the PSNI's other sources of income, may only be met by future grants or grants-in-aid from the PSNI's sponsoring Department (the Northern Ireland Office). This is because, under the normal conventions applying to parliamentary control over income and expenditure, such grants may not be issued in advance of need.

Grants for 2005-2006 have already been included in the NIO's Estimates for that year, taking into account the amounts required to meet the PSNI's liabilities falling due. These have been approved by Parliament and there is no reason to believe that the NIO'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 pension scheme statements.

Future developments

A new Police Pension Scheme is due to come into force for new entrants to the PSNI from 1 April 2006. The detailed arrangements have yet to be finalised.

Post balance sheet events

There are no post balance sheet events to be noted.

Further information

Any enquiries regarding the PSNI Police Pension Scheme should be addressed to Head of Pensions Branch.

Report of the actuary - Police Pension Scheme

a Liabilities

The capitalised value as at 31 March 2005 of expected future benefit payments under the Police Pension Scheme, for benefits accrued in respect of employment (or former employment) prior to 31 March 2005, has been assessed using the methodology and assumptions set out in Sections C and D below. The results are broken down, between the various categories of members, as follows

	£ million
Current pensioners	1,915
Deferred members	46
Active members	2,261
Total	4,222

b Accruing costs

The cost of benefits accruing for each year is met partly by a contribution of 11% of pensionable salary by members, with the employer meeting the balance of the cost. The cost of benefits accruing in the year 2004-2005 has been assessed as follows

	% of pensionable pay
Employer's share of standard cost	28.3%

In relation to the pensionable payroll for the financial year, the actual charges made to employers in cash terms are assessed as £75.49 million for the financial year 2004/2005.

c Methodology

The value of the liabilities has been obtained by projecting the accrued benefits, with allowance for expected future pay increases in respect of active members. The standard contribution rate for accruing costs has also been determined using the projected unit method.

d Assumptions

The assessments have been prepared in accordance with the 2004 Statement of Recommended Accounting Practice (SORP) issued by the Chartered Institute of Public Finance and Accountancy. Under the SORP, the discount rate is taken to be the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. An assumption for price inflation has been derived by considering market expectations as at 31 March 2005 (based broadly on the difference between the gross redemption yields on fixed interest bonds and index-linked bonds as at the balance sheet date). Earnings are assumed to increase at 1.5% p.a. faster than prices.

The main financial assumptions proposed by the Government Actuary and agreed with the Authority in nominal terms are

- a rate of earnings increases of 4.4% p.a. excluding promotional and performance increments;
- a long-term nominal discount rate of 5.4% p.a.; and
- a rate of long-term inflation and pensions increases of 2.9% p.a.

As far as possible demographic assumptions have been derived from aggregate experience across all authorities with police officers in the Police Pension Scheme. Where scheme specific rates are not available we have adopted appropriate standard tables.

e Notes

- 1 As 82% of the Scheme membership is male, all benefits are valued using male demographic assumptions. In my view this simplifies the assessment, while not having a material impact on the results.
- 2 The assessment includes allowance for injury benefits in payment. It does not include any allowance for injury benefits that may be awarded in the future.
- 3 The data for this assessment was provided by the Police Service of Northern Ireland. Full data was provided in respect of the current and former members of the pension scheme as at 31 March 2005, together with cashflow data.

Andrew Johnston
Government Actuary's Department
London

17 June 2005

Statement of Accounting Officer's responsibilities - Police Pension Scheme

Under Section 12(3) of the Police (Northern Ireland) Act 2000 as amended by Section 7(4) of the Police (Northern Ireland) Act 2003, the Chief Constable of the Police Service of Northern Ireland is required to prepare a statement of accounts for pensions purposes on behalf of the Northern Ireland Policing Board, in the form and on the basis directed by the Secretary of State.

With the exception of certain transactions (which are accounted for on a cash basis) the financial statements are prepared on an accruals basis and must give a true and fair view of the financial transactions of the Scheme during the year and the disposition, at the end of the financial year, of the net liability. Note 2, 'Accounting Policies', to the financial statements describes those transactions which are accounted for on a cash basis, the use of which has no material effect on the net outgoings for the year nor on the net liability at the year end.

In preparing these statements, the Chief Constable of the PSNI is required to

- observe the accounts direction issued by the Northern Ireland Office, 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 have been followed and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on a going concern basis.

The Accounting Officer for the Northern Ireland Office designated the Chief Constable of the Police Service of Northern Ireland as Accounting Officer for the Police Service of Northern Ireland. The Chief Constable's relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper financial records, are set out in the Non-Departmental Public Bodies' Accounting Officer Memorandum by HM Treasury and published in Government Accounting.

Statement on Internal Control - Police Pension Scheme

Scope of responsibility

As Accounting Officer for the Police Service of Northern Ireland, I have responsibility for maintaining a sound system of internal control that supports the achievement of PSNI's policies, aims and objectives, set by the Northern Ireland Policing Board, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

I am directly accountable to the Accounting Officer of the Northern Ireland Office and may be called upon to appear before the Public Accounts Committee. The responsibilities of an Accounting Officer are set out in the Police Act 2000 and in the HM Treasury memorandum "Responsibilities of an NDPB Accounting Officer".

The purpose of the system of internal control

The 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 organisational 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 PSNI for the year ended 31 March 2005 and up to the date of approval of the annual financial statements, and accords with Treasury guidance.

Capacity to handle risk

All Chief Officers and Senior Managers, together with the Audit and Risk Committee, have played an important role in providing leadership to the risk management process. In addition, training has been provided to staff throughout the organisation to ensure that staff are equipped to manage risk. During the year, the methodology used for assessing both the impact and likelihood of risk has been reviewed and refined in order to make it more objective. Representatives from Departments and District Command Units (DCU's) have been trained in this revised methodology.

The risk and control framework

A Risk Policy Framework document has been prepared and issued to the organisation. This explains the underlying approach to risk management, documents the roles and responsibilities of the Chief Constable, Chief Officers and other relevant parties including line management. In addition, it also includes details of the monitoring and reporting arrangements.

With the publication of the Policing Plan and as part of the development of a fully integrated planning process, all Departments and DCU's reviewed their risk registers in light of priorities selected for 2004-2005. A Corporate Risk Register has been in place to highlight the most significant strategic risks facing the organisation for 2004-2005. The Register is currently being revised and updated to take account of the new priorities for 2005-2006. The key risks have been highlighted and grouped and will be prioritised before being approved by Chief Officers.

Internal Audit has recently undertaken a review of the Corporate Risk Register. A number of recommendations have been made, which should enhance the existing arrangements for considering risk at the corporate level.

Stewardship reporting is a key element of ensuring accountability and ownership of risks and their management within the organisation. All Chief Officers are required to sign a Stewardship Statement on a half yearly basis to confirm that over a period of time, they have reviewed the risk register for their respective areas of responsibility and assessed the management of the risks identified. The signing of the Stewardship Statements helps to provide assurance that all risks are being managed in the organisation.

The Audit and Risk Committee is responsible for monitoring the PSNI's risk management and internal controls on a regular basis during the year. This Committee receives reports from internal and external audit and, in addition, reports presented on the risk management process. PSNI is also subject to regular review by Her Majesty's Inspectorate of Constabulary and other independent monitoring bodies, adding to the framework of assurance. The Committee was strengthened during the year by the appointment of two Non-Executive Directors.

A significant Change Programme is still underway and the risk and control framework will continue to develop to reflect a changing environment. In particular, risk management is being incorporated more fully into the corporate planning and decision-making processes of the organisation and will provide increased assurance that significant risks will be identified, evaluated and appropriately controlled in the organisation.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the Chief Officers within the organisation 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. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Chief Officers and the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

As Accounting Officer I have received reports from the Chair of the Audit and Risk Committee concerning internal control. PSNI has developed a framework to give assurance in management of risk across the organisation.

During the year Deloitte provided an Internal Audit Service in accordance with the standards defined in the Government Internal Audit Manual. They submitted regular reports together with recommendations for improvement. In addition, the Head of Internal Audit has issued an independent opinion on the adequacy and effectiveness of the organisation's system of internal control.

Significant weaknesses were reported in the allowances system which governs the terms and conditions of service for police and civilian staff. Although good progress has been made in addressing these weaknesses during 2004-2005, significant work remains to be undertaken, which is being progressed and monitored by a project plan during 2005-2006. Progress has been made in developing a framework for disaster recovery planning across PSNI systems, and significant resources are required and are being applied during 2005-2006 to ensure the arrangements are operationally effective.

Sir Hugh Orde
Chief Constable
Police Service of Northern Ireland

25 October 2005

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

I certify that I have audited the financial statements on pages 62 to 71 under the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003. These financial statements have been prepared under the accounting policies set out on pages 65 to 67.

Respective responsibilities of the Police Service of Northern Ireland, the Chief Constable and the Auditor

As described on page 57, the Chief Constable of the Police Service of Northern Ireland is responsible for the preparation of the financial statements in accordance with the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003 and directions made thereunder by the Secretary of State for Northern Ireland and for ensuring the regularity of transactions. The Chief Constable is also responsible for the preparation of the contents of the Accounts. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003 and directions made thereunder by the Secretary of State for Northern Ireland, and 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 report whether the contributions payable to the Scheme have been paid in accordance with the Scheme rules and the recommendations of the actuary. I also report if, in my opinion, the Report of the Scheme Manager is not consistent with the financial statements, if the Police Service of Northern Ireland has not kept proper accounting records for the Scheme, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Accounts and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 58 to 59 reflects the Police Service of Northern Ireland's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Chief Constable's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Police Service of Northern Ireland's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Police Service of Northern Ireland in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Scheme'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 are free from material misstatement, whether caused by error, or by fraud or other irregularity 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 have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion

- the financial statements give a true and fair view of the financial transactions of the Police Pension Scheme for the year ending 31 March 2005, the net outgoings, total recognised gains and losses and cash flows for the year and the amount and disposition at that date of its assets and liabilities and have been properly prepared in accordance with the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003 and directions made thereunder by the Secretary of State for Northern Ireland;
- 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; and
- the contributions payable to the Scheme during the year ended 31 March 2005 have been paid in accordance with the Scheme rules and the recommendations of the Actuary.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

8 November 2005

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

Revenue Account for the year ended 31 March 2005 - Police Pension Scheme

	Notes	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Income			
Contributions receivable	3	83,591	81,537
Transfers in*	4	2,570	5,941
Other income	5	38,880	14,020
Total		125,041	101,498
Outgoings			
Current service cost	6, 11.1	(105,030)	(80,000)
Past service cost	6, 11.1	(10,920)	0
Transfers in*	6, 11.1	(2,570)	(5,941)
Total		(118,520)	(85,941)
Surplus for the year before interest		6,521	15,557
Interest on scheme liabilities	7, 11.1	(208,210)	(164,690)
Net outgoings for the year		(201,689)	(149,133)

Statement of total recognised gains and losses for the year ended 31 March 2005

Net outgoings for the year		(201,689)	(149,133)
Actuarial loss	11.3	(813,790)	(696,950)
Total recognised losses for the year		(1,015,479)	(846,083)

The notes on pages 65 to 71 form part of these accounts

* 2003-2004 figures restated to reflect revised disclosure requirements.

Balance Sheet as at 31 March 2005 - Police Pension Scheme

	Notes	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Current assets			
Debtors	9	2,566	3,681
Creditors due within 1 year			
Creditors	10	(2,565)	(3,680)
Net current assets		1	1
<i>Provisions for liability and charges</i>			
Provision for pension liability	11.1	(4,221,913)	(3,206,434)
Net liabilities		(4,221,912)	(3,206,433)
Financed by			
Opening balance		(3,206,433)	(2,360,350)
Net outgoings for the year		(201,689)	(149,133)
Actuarial loss		(813,790)	(696,950)
Closing balance		(4,221,912)	(3,206,433)

The notes on pages 65 to 71 form part of these accounts.

Sir Hugh Orde
Chief Constable
Police Service of Northern Ireland

25 October 2005

Cashflow Statement for the year ended 31 March 2005

	Note	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Reconciliation of net outgoings to operating cash flows			
Net outgoings for the year		(201,689)	(149,133)
Adjustments for movements in working capital		0	(1)
Increase in pension provision		313,240	244,690
Increase in pension provision – enhancements and transfers in		13,490	5,941
Use of provision	11.1	(125,041)	(101,497)
Net cash outflow from operating activities		0	0
Financing		0	0
Increase/(decrease) in cash in the period		0	0

The notes on pages 65 to 71 form part of these accounts.

Notes to the Scheme Statements - Police Pension Scheme

1 Basis of preparation of the scheme statement

The PSNI Pension scheme statement has been prepared in accordance with the relevant provisions of the Resource Accounting Manual for 2004-2005 issued by the Treasury which reflects the requirements of Financial Reporting Standard (FRS) 17 Retirement Benefits. These accounts show the unfunded pension liability and movements in that liability during the year. The accounts also have regard to the recommendations of the Statement of Recommended Practice Financial Reports of Pension Schemes to the extent that these are appropriate, together with Section 12 (3) of the Police (Northern Ireland) Act 2000 as amended by Section 7 (4) of the Police (Northern Ireland) Act 2003 and the Accounts Direction from the Northern Ireland Office.

The scheme statement summarises the transactions of the PSNI Pension Scheme. The balance sheet shows the deficit on the scheme; the revenue account shows the movements in the liability analysed between the pension cost, enhancements and transfers in, and the interest on the scheme liability. The actuarial position of the pension scheme is dealt with in the Report of the Actuary, and the scheme statement should be read in conjunction with that report.

2 Accounting policies

2.1 Contributions receivable

Employers' normal pension contributions are accounted for on an accruals basis.

Employers' special pension contributions are accounted for in accordance with the agreement under which they are paid or, in the absence of such an agreement, on a cash basis.

Employees' pension contributions which exclude amounts paid in respect of the purchase of added years and Additional Voluntary Contributions are accounted for on an accruals basis.

Employees' contributions paid in respect of the purchase of added years are accounted for on an accruals basis. The associated increase in the scheme liability is recognised as expenditure.

2.2 Transfers in and out

Transfers in are normally accounted for as income and expenditure (representing the associated increase in the scheme liability) on a cash basis, although group transfers in may be accounted for on an accruals basis where the scheme has formally accepted or transferred a liability.

2.3 Other income

Other income, including refunds of gratuities, overpayments recovered other than by deduction from future benefits are accounted for on an accruals basis. To the extent that this income also represents an increase in the scheme liability, it is also reflected in expenditure.

2.4 Current service cost

The current service cost is the increase in the present value of the scheme liabilities arising from current member's service in the current period and is recognised in the Revenue Account. The cost is based on a discount rate of 3.5% real (i.e. 6.5% including inflation).

2.5 *Past service costs*

Past service costs are increases 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.

Past service costs are recognised in the Revenue Account on a straight-line basis over the period in which the increase in benefit vests.

2.6 *Interest on scheme liabilities*

The interest cost is the increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement and is recognised in the Revenue Account. The interest cost is based on a discount rate of 3.5% real (i.e. 6.5% including inflation).

2.7 *Other payments*

Other payments are accounted for on an accruals basis.

2.8 *Scheme liability*

Provision is made for liabilities to pay pensions and other benefits in the future. The scheme liability is measured on an actuarial basis using the projected unit method and is discounted at 3.5 % real (i.e. 6.5% including inflation).

Full actuarial valuations by a professionally qualified actuary are obtained at intervals not exceeding four years. The actuary reviews the most recent actuarial valuation at the balance sheet date and updates it to reflect current conditions.

2.9 *Pension benefits payable*

Pension benefits payable are accounted for as a decrease in the scheme liability on an accruals basis.

2.10 *Pension payments to those retiring at their normal retirement age*

Where a retiring member of the pension scheme has no choice over the allocation of benefits receivable between the value of the lump sum and the annual pension, the transaction is accounted for as a decrease in the scheme liability on an accruals basis.

Where a retiring member of the pension scheme has a choice over the allocation of benefits receivable between the value of the lump sum and the annual pension, the transaction is accounted for as a decrease in the scheme liability on a cash basis.

2.11 *Pension payments to and on account of leavers before their normal retirement age*

Where a member of the pension scheme is entitled to only a refund of contributions, the transaction is accounted for as a decrease in the scheme liability on an accruals basis.

Where a member of the pension scheme has the option of receiving a refund of contributions or a deferred pension, the transaction is accounted for as a decrease in the scheme liability on a cash basis.

2.12 *Injury benefits*

Injury benefits are accounted for on an accruals basis. They are not funded through the normal pension contributions (accruing superannuation liability contributions) and in respect of injuries sustained on or before 31 March 1998 the amounts payable are a charge on the pension scheme and shown on the Revenue Account. Those payable after that date are recoverable from employers.

2.13 Lump sums payable on death in service

Lump sum payments payable on death in service are accounted for on an accruals basis. They are funded through the normal pension contributions and are a charge on the pension provision.

2.14 Actuarial gains/losses

Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are recognised in the Statement of Total Recognised Gains and Losses for the year.

2.15 Additional voluntary contributions

Additional Voluntary Contributions (AVC's) are deducted from employees' salaries and are paid over directly by the employing departments to the approved AVC providers.

3 Contributions receivable

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Employers' Contributions	54,199	52,822
Employees' Contributions	29,392	28,715
	83,591	81,537

4 Transfers in

	£000	£000
Transfers in from other schemes	2,570	5,941

5 Other income

	£000	£000
Grant-in-Aid from the Northern Ireland Office	38,880	14,020

6 Increase in scheme liabilities

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Current service cost	105,030	80,000
Past service cost enhancements	10,920	0
Transfers in*	2,570	5,941
	118,520	85,941

7 Interest on scheme liabilities

	£000	£000
Interest Charge for year	208,210	164,690

8 Administration fees and expenses

All costs of administering the PSNI Pension Scheme are borne by the Police Service of Northern Ireland.

9 Debtors

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Amounts due from NIO	2,297	3,603
Pension overpayments	117	78
Amounts due from PSNI main accounts	152	0
	2,566	3,681

10 Creditors

	£000	£000
Amounts due to PSNI main accounts	2,413	3,680
Inland Revenue	152	0
	2,565	3,680

* 2003-2004 figures restated to reflect revised disclosure requirement

11 Provision for pension liability

The PSNI Police Pension Scheme is an unfunded defined benefit scheme. A full actuarial valuation was carried out as at 31 March 2005 by the Government Actuary Department. The major assumptions used by the Actuary were

	At 31 March 2005	At 31 March 2004	At 31 March 2003
Rate of inflation	2.9%	2.9%	3.4%
Rate of increase in salaries	4.4%	4.4%	4.9%
Rate of increase in pensions	2.9%	2.9%	3.4%
Rate for discounting scheme liabilities	5.4%	6.5%	7.0%

The PSNI are responsible for providing the Actuary with the information the Actuary needs to carry out the valuation. This information includes, but is not limited to, details of:

- scheme membership, including age and gender profile, active membership, deferred pensioners and pensioners;
- benefit structure, including details of any discretionary benefits and any proposals to amend the scheme;
- income and expenditure, including details of expected bulk transfers into or out of the scheme; and
- following consultation with the Actuary, the key assumptions that should be used to value the scheme liabilities, ensuring that the assumptions are mutually compatible and reflect a best estimate of future experience.

Pension scheme liabilities accrue over employees' periods of service and are discharged over the period of retirement and, where applicable, the period for which a spouse or eligible partner survives the pensioner. In valuing the scheme liability, the Actuary must estimate the impact of several inherently uncertain variables far into the future. These variables include not only the key financial assumptions noted in the table above, but also assumptions about the changes that occur in the future in the mortality rate, the age of retirement and the age from which a pension becomes payable.

The value of the liability included on the balance sheet may be significantly affected by even small changes in assumptions. For example, if at a subsequent valuation, it is considered appropriate to reduce the assumed rate of inflation, or the assumed rate of increase in salaries, then the value of the pension scheme liability will decrease (other things being equal). Conversely, if the assumed rates are increased, the value of the liability will increase. The PSNI accept that, as a consequence, the valuation provided by the Actuary is inherently uncertain. The increase or decrease in future liability charged or credited for the year resulting from changes in assumptions is disclosed in this note. The note also discloses 'experience' gains or losses for the year, showing the amount charged or credited for the year because events have not coincided with assumptions made for the last valuation.

11.1 Analysis of movement in scheme liability

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Scheme liability at 1 April	(3,206,434)	(2,360,350)
Pension payment (see note 11.2)	125,041	101,497
Current service cost	(105,030)	(80,000)
Past service cost	(10,920)	0
Transfers in	(2,570)	(5,941)
Interest on pension scheme liability	(208,210)	(164,690)
Actuarial Loss (see note 11.3)	(813,790)	(696,950)
Scheme liability at 31 March	<u>(4,221,913)</u>	<u>(3,206,434)</u>

During the year ended 31 March 2005, employee contributions represented an average of 11% of pensionable pay. Employer contributions represented an average of 20.25% of pensionable pay.

11.2 Analysis of pension payments

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Pension payments	91,651	82,275
Gratuities/commutations	33,290	18,890
Payments to and on account of leavers	100	332
Refunds of transfer values paid	0	21
Refunds of transfer values received	0	(21)
	<u>125,041</u>	<u>101,497</u>

11.3 Analysis of actuarial loss

	£000	£000
Experience gains and losses arising on pension liabilities	(5,630)	(100,000)
Changes in assumptions underlying the present value of the pension liabilities	(808,160)	(596,950)
Total actuarial loss	<u>(813,790)</u>	<u>(696,950)</u>

12 Related party transactions

PSNI is a body of constables, funded through the Northern Ireland Policing Board which is a Non-Departmental Public Body of the Northern Ireland Office.

The Northern Ireland Office is regarded as a related party. During the year the PSNI Pension Scheme has had a number of material transactions with the Northern Ireland Office and other government Departments, namely the Department of Finance and Personnel.

None of the Managers of the Scheme, key Managerial Staff of the PSNI or other related parties has undertaken any material transactions with the Scheme during the year.

13 Financial Instruments

FRS 13 Derivatives and Other Financial Instruments requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the non-trading nature of its activities and the way in which PSNI is funded from the Northern Ireland Office, the PSNI Police Pension Scheme is not exposed to the degree of financial risk faced by business entities.

Moreover, financial instruments play a more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 applies.

The PSNI Pension Scheme relies primarily on departmental funding for its revenue resource requirements, and is therefore not exposed to liquidity risks. It also has no material deposits, and all assets and liabilities are determined in sterling, so it is not exposed to interest rate or currency risk.

14 Losses

Type	Description	No. Cases	Value
Losses	Cash	4	£1,167

15 Additional Voluntary Contributions

The Police Pension Scheme provides for officers to make additional voluntary contributions (AVC's) to increase their pension entitlements or to increase life assurance cover. Officers may arrange to have agreed sums deducted from their salaries, for onward payment to the approved provider. (i.e. Equitable Life or Standard Life). The Managers of the Police Pension Scheme have responsibility only for onward payment by employers of officer's contributions to the scheme's approved provider. These AVC's are not brought to account in this statement. Officer's participating in this arrangement receive an annual statement from the approved provider as at 31 March confirming the amounts held to their account and the movements in the year.

The aggregate amounts of AVC investments are as follows

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Movements in the year		
Balance at 1 April	746	657
New investments	109	147
Sale of investments to provide pension benefits	(69)	(70)
Changes in market value of investments	50	12
Balance at 31 March	<u>836</u>	<u>746</u>
Contributions received to provide life cover	0	0
Benefits paid on death	<u>0</u>	<u>0</u>

16 Intra Government balances

Included in debtors and creditors are the following intra government balances as at 31 March 2005.

	Debtors: Amounts falling due within one year £000	Debtors: Amounts falling due after one year £000	Creditors: Amounts falling due within one year £000	Creditors: Amounts falling due after one year £000
NIO Core, its agencies & NDPBs	2,449	0	2,413	0
Other Central Government bodies	0	0	0	0
Local Authorities	0	0	0	0
NHS Trusts	0	0	0	0
Public corporations & trading funds	0	0	0	0
Bodies external to government	117	0	152	0
Total	2,566	0	2,565	0

Included in debtors and creditors are the following intra government balances as at 31 March 2004.

	Debtors: Amounts falling due within one year £000	Debtors: Amounts falling due after one year £000	Creditors: Amounts falling due within one year £000	Creditors: Amounts falling due after one year £000
NIO Core, its agencies & NDPBs	3,603	0	3,680	0
Other Central Government bodies	0	0	0	0
Local Authorities	0	0	0	0
NHS Trusts	0	0	0	0
Public corporations & trading funds	0	0	0	0
Bodies external to government	78	0	0	0
Total	3,681	0	3,680	0

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