

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

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# Police Service of Northern Ireland Accounts 2006-2007

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 22 OCTOBER 2007

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## Foreword

### 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.

### Principal activities

The Police Service of Northern Ireland (PSNI) exists to provide effective, high quality and professional policing to all of the people living in Northern Ireland. It aims to do this by working closely with, and in, the whole community. 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.

### Accounts direction

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.

### Chief Officers

The Chief Officers who served throughout the year, except as noted, were as follows

*Sir Hugh Orde*  
Chief Constable

*Paul Leighton*  
Deputy Chief Constable

*Peter Sheridan*  
Assistant Chief Constable Crime Operations

*Roy Toner*  
Assistant Chief Constable Operational Support

*Drew Harris*  
Assistant Chief Constable Criminal Justice

*Duncan McCausland*  
Assistant Chief Constable Urban Region

*Judith Gillespie*  
Assistant Chief Constable Rural Region

*Alistair Finlay (Appointed in August 2006)*  
Assistant Chief Constable Crime Support

*David Best*  
Director of Finance & Support Services

*Joe Stewart*  
Director of Human Resources

Further details are provided in the Remuneration Report section on page 9.

## Corporate Governance

Corporate Governance within PSNI is structured on a committee model, reporting to the Chief Constable's Forum (CCF) made up of all Chief Officers and chaired by the Chief Constable.

Each sub committee of the CCF consists of relevant Chief Officers and other members of the Senior Management Team. These committees provide a conduit through which major policy decisions are formulated and exercise responsibility for specific aspects of governance within the Police Service.

The key sub committees supporting the CCF are the

- Information Management Steering Group
- Strategic Tasking Coordinating Group
- Finance, Personnel and Training Committee
- Organisational Development Committee
- Supplies, Estates and Transport Committee
- Audit and Risk Committee

The role of the Audit and Risk Committee is to advise the Chief Constable on the adequacy of internal control arrangements including risk management and governance. This committee includes two Non-Executive Members, one as Chair, with both Internal and External Audit invited to attend.

## Company directorships

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

## Fixed assets

Details of the movement in fixed assets are set out in notes 8 and 9 to the Financial Statements. There are no significant differences between the market values and book values of land and buildings to be disclosed.

## Research and development

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

## Interest rate and currency risk

PSNI has no borrowings, relying 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.

## Post balance sheet events

On the 21 September 2007 a decision was made on the future of the remaining 680 Full Time Reserves officers. It has been decided to reduce the number of officers by 299 over a period of around 12 months from 1 April 2008. The remaining 381 officers are expected to leave by March 2011, when the Severance Scheme will end. The estimated costs of releasing all 680 Full Time Reserve officers are approximately £85 million.

The Annual Report and Accounts were authorised to be issued and laid in the Houses of Parliament on 8 October 2007. There are no other material post balance sheet events.

## Future developments

The Northern Ireland Policing Board, in conjunction with the PSNI, published a Policing Plan covering the period 2007-2010 in March this year. The Policing Plan sets out performance indicators and targets by which the Service will be held to account.

The Plan was developed in consultation with the community. It places an emphasis on meeting the needs of the public and establishes a framework through which a professional and progressive policing service will be delivered.

The PSNI will work to reduce all crime, targeting in particular, those areas that worry people most, including anti-social behaviour, violent crime, domestic burglary and road policing.

Key programmes and actions extending over the period of 2007-2010 will ensure that the Police Service remains on schedule and focused on the priorities of the people it serves.

A copy of the Policing Plan 2007-2010 can be viewed on the Policing Board's website ([www.nipolicingboard.org.uk](http://www.nipolicingboard.org.uk)) or the PSNI website ([www.psni.police.uk](http://www.psni.police.uk)), as well as being available in a number of other formats.

Another challenge that remains is the need to continue to implement the programme of change. The new eight District Command Unit (DCU) structure will provide a flexibility and economies of scale which will allow us to improve services.

Fronting this change are the Chief Superintendents who have been appointed to command the eight new DCUs. They represent the future of district policing here and will lead the change process – developing, shaping and engaging with communities and their representatives in order to deliver professional and progressive policing.

Funding has become a major factor for the PSNI and the Service faces an increasing challenge in making best use of available financial resources, if policing is to be delivered effectively within budgetary constraints in the future.

The challenges ahead are significant, but they are challenges the PSNI have been preparing for and will meet with both commitment and determination.

## Charitable donations

PSNI made no charitable or political donations during the year.

## 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, PSNI complied with the relevant legislation.

## Payment of suppliers

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.

Despite the major transition to a new efinance payment system during the year, PSNI paid 95% of all invoices within 30 days (96% in 2005-2006).

## Pension liabilities

The pension liabilities of Police Officers are accounted for separately in the PSNI Police Pension Accounts. Pension benefits and liabilities for Police Staff are provided through the Principal Civil Service Pension Scheme (NI). (See further details in the Remuneration Report on page 9 and note 3 to the Financial Statements.)

## 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 £68,000 (2005-2006: £66,000). This includes the audit fees in respect of the Police Pension Accounts, the Police Fund and the Police Property Fund.

So far as the Chief Constable is aware, there is no relevant audit information of which the Comptroller and Auditor General is unaware. The Chief Constable has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Comptroller and Auditor General is aware of that information.

## Chief Constable's Annual Report

A full certified copy of these Annual Financial Statements will be included on the PSNI's website ([www.psnipolice.uk](http://www.psnipolice.uk)) as an addendum to the Chief Constable's Annual Report 2006-2007 which was published in June 2007. A brief overview of the cost of policing in 2006-2007 was included in the Chief Constable's Annual Report which was posted to every household in Northern Ireland.

## Police Pension Accounts, Police Fund and Police Property Fund

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

## Management Commentary

This Management Commentary focuses on matters that are relevant to all users of the financial statements. Although it is designed to be a self-standing document, much of the information contained in it is simply a summary of information provided in other documents and is therefore cross-referenced as appropriate.

The Management Commentary discusses the following main areas

- Nature of the business
- Review of performance
- Risks and uncertainties
- Review of financial position and resources

### Nature of the business

The Police (Northern Ireland) Act 2000 and subsequent amendments in the Police (Northern Ireland) Act 2003, made specific provision about policing in Northern Ireland.

The Police Service of Northern Ireland (PSNI) provides effective, efficient and professional policing to the people of Northern Ireland. It aims to achieve this by working closely with local communities. It is the role of the Police Service to work to reduce crime and the fear of crime and to work closely with the public to ensure a safer Northern Ireland for all.

The vision of the PSNI is to provide a service that everyone can be proud of because it delivers policing at its best. While delivering this, officers and staff adhere to the values of honesty and openness; fairness and courtesy; partnerships, performance, professionalism; and respect for the rights of all.

The Northern Ireland Policing Board is an independent public body established under the Police (Northern Ireland) Act 2000. The Policing Board is responsible for overseeing policing in Northern Ireland, for supporting the PSNI in its aim to deliver effective and efficient policing, and for holding the police to account, through the Chief Constable, for delivery of those aims.

Each year the PSNI and the Policing Board publish an annual Policing Plan in accordance with the Police (Northern Ireland) Act 2000. The annual Policing Plan is prepared by the Chief Constable, agreed by the Board and endorsed by the Secretary of State. It sets out specific annual performance targets and indicators for the PSNI and takes a strategic view of policing in Northern Ireland over the next three years.

A copy of the annual Policing Plan is available on the Policing Board's website ([www.nipolicingboard.org.uk](http://www.nipolicingboard.org.uk)) or the PSNI website ([www.psni.police.uk](http://www.psni.police.uk)), as well as being available in a number of other formats.

### Review of performance

During the year the Policing Board monitors and reviews PSNI's progress in meeting the targets set out in the annual Policing Plan. This oversight is carried out in part during the Policing Board's public meetings where the Chief Constable provides a report on progress towards all targets. This process of accountability allows the Chief Constable to outline remedial actions being taken to address underperformance and to outline good practice which has resulted in improved performance.

After the end of the financial year the Chief Constable submits an Annual Report to the Policing Board. This report is published by the Chief Constable and sent to the Secretary of State who lays it before Parliament. A copy of the Chief Constable's Annual Report for 2006-2007 is available on the PSNI website [www.psni.police.uk](http://www.psni.police.uk), as well as being available in a number of other formats.

The Policing Board must also produce a report on the extent to which the targets set in the annual Policing Plan have been fulfilled and this information is set out in the Board's Annual Report and Statement of Accounts 2006-2007, available online at [www.nipolicingboard.org.uk](http://www.nipolicingboard.org.uk).



In summary, the results show good police work for the year with PSNI achieving the majority of the targets in the 2006-2007 annual Policing Plan. For those targets that were not achieved, PSNI will work alongside the Board and others to realise improvements in performance.

PSNI are making headway in tackling crime and police performance shows that policing is working in Northern Ireland and that communities are being made safer.

Overall, crime fell by almost 2% on the previous year. This has been achieved by continuing to develop new policing techniques and by receiving increased support and assistance from communities. In a number of categories there were marked decreases in the number of crimes being committed. Burglary offences fell by 19%, theft offences reduced by 5.8% and fraud and forgery offences were down by 12%. There was also a decrease of 8.8% in the number of vehicle crimes recorded and robbery showed an overall decrease of 9.7%

However, the 2006-2007 crime statistics also showed an increase of 2.4% in the number of violent crimes recorded. Offences against the person rose by 2.9% and sexual offences rose by 5.4%. Offences of criminal damage also rose by 4.4%. Police on the ground have been tackling this through a range of crime prevention projects and through initiatives such as the growing number of neighbourhood watch schemes.

The drive to make Northern Ireland's roads safer is reflected in an overall improving trend in road safety with fewer deaths and injuries. In part, this is due to the PSNI's strategy on road safety and policing, which seeks to educate drivers and encourage them to modify their behaviour and drive more safely. This was backed up by robust and ongoing enforcement.

In the year ahead, PSNI plan to tackle those areas which continue to worry people most, including anti-social behaviour, violent crime, domestic burglary and road policing. More detail is available in the annual Policing Plan 2007-2010.

PSNI will continue to work in partnership with all communities in order to reduce all crime and the fear of crime.

## Risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the PSNI's long term performance. These risks are managed as part of the PSNI's risk and control framework.

The key risk priorities, detailed in the Corporate Risk Register, facing the organisation during 2006-2007 were in the generic areas of funding, procurement, human resourcing, change management and operational policing issues.

## Review of financial position and resources

### Results for the year

The Income and Expenditure Account is set out on page 20 and shows a deficit for the year of £1,014,335 including £187,000 for an exceptional item in respect of the transfer of Injury Awards from the Police Pension Accounts (see notes 6 and 13).

An amount of £1,001,711 was transferred from reserves after crediting £12,624,000 in respect of the notional cost of capital.

### The total cost of policing

From a budget outturn perspective, as reported in the Chief Constable's Annual Report 2006-2007 and subject to audit, the available total revenue funding for 2006-2007 relating to the main police grant was £749.4m. Total expenditure during 2006-2007 was £743.3m, resulting in a revenue surplus of £6.1m, 0.8% of the total available grant. Actual capital expenditure during 2006-2007 relating to the main police grant was £35.6m and within available funding.

Expenditure continues to be managed within available funding, supported by the on-going success of devolved budgets to District Command Units and Headquarter Departments.

Reported Patten Voluntary Severance expenditure was £32.2m. Full Time Reserve Compulsory Severance expenditure was £23.8m, while Patten Non Severance expenditure was £21.3m during 2006-2007. This money was used to implement the programme of change in the following areas: external recruitment of police officers and police staff, improving the appearance of police stations, implementation of the information technology strategy; employment of staff under the civilianisation programme to perform duties previously carried out by police officers and early work on progressing the new Police Training College.

Further details and accompanying pie charts on the cost of policing can be found in the Chief Constable's Annual Report 2006-2007.

### **Future outlook**

As already indicated, Funding is becoming an increasingly major factor for the PSNI and the Service faces a significant challenge in making best use of the available financial resources, if policing is to be delivered effectively within budgetary constraints in the future.

### **Environmental matters**

PSNI continue to develop an Environmental Sustainability policy in relation to the development and maintenance of the Police Estate. This focuses on achieving Government targets in relation to reduction of carbon footprints, annual reduction in energy consumption and utilisation of renewable energy sources.

PSNI also continue to implement Combined Heat and Power projects at appropriate sites and a range of utility reduction measures are being rolled out throughout the Estate resulting in energy cost savings of approximately £900,000 for the 2006-2007 financial year (against the base year of 1998-1999), allowing for unit cost increases in utility costs and weather correction.

### **Employees**

PSNI places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the organisation. This is achieved through formal and informal meetings, regular briefings, information bulletins and staff newsletters.

Employee representatives are consulted regularly on a wide range of matters affecting current and future interests.

PSNI has a policy of equal opportunities which applies in relation to recruitment of all new employees and to the management of existing personnel. We offer all of our staff training relevant to their roles and this has contributed to the overall performance of the organisation.

### **Social and community issues**

PSNI actively encourages its employees to give something back to their local community. In 2006-2007, PSNI officers and staff were involved in a wealth of fundraising activities and support programmes, at both a corporate and local level. Just a couple of examples of such work have included the Chief Constable's charity ball which raised £41,000 for the Northern Ireland Cancer Fund for Children; and the birth of the Newforge Taggers, an extremely successful scheme initiated by PSNI Rugby Club which uses tag rugby to help young people with learning disabilities to grow in confidence and realise their potential, while promoting health and having fun.

### **Going concern**

These financial statements have been prepared on a going concern basis of accounting.

# Remuneration Report

## Remuneration policy

The remuneration of Police Chief Officers is set by the Northern Ireland Policing Board.

In reaching its recommendations, the Policing Board has regard to the following considerations

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on departments and other public bodies to meet the output targets for the delivery of services;
- the funds available to the organisation;
- the Government's inflation target; and
- Police Negotiating Board pay scales for Chief Officers.

The Policing Board takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

## Service contracts

The Policing Board is responsible for the appointment and service contracts of Chief Officers.

### **Chief Constable and Deputy Chief Constable**

The Chief Constable was appointed by the Policing Board from 1 September 2002 on a five year fixed term contract. In March 2007, the Board offered the Chief Constable a three year extension to his current contract which he accepted.

The Deputy Chief Constable was appointed by the Policing Board from 31 March 2003 on a seven year fixed term contract. However, this fixed term period was reduced to five years, effective from 1 September 2003, in line with the 2004 pay agreement.

The new PSNI Regulations 2005 specify a fixed term of five years for the post of Chief Constable or Deputy Chief Constable, which may be extended for a further term of a maximum of three years and for subsequent terms of a maximum of one year. Any extension or subsequent extension which is due to expire more than one year after the expiry of the original fixed term shall require the consent of the Secretary of State.

Should the Policing Board decide not to extend a contract of the Chief Constable or Deputy Chief Constable, it is required to give a minimum notice period of six months.

### **Assistant Chief Constables**

Fixed Term Agreements for Assistant Chief Constables were abolished from 1 April 2004.

However, there is a requirement for the Policing Board to provide an annual review of appointment in respect of those Assistant Chief Constables with more than 30 years pensionable service and who have reached the age of 55, to determine whether their continuing service is in the interests of the service.

The appointment dates for current Assistant Chief Constables are as follows

|                   |                  |
|-------------------|------------------|
| Peter Sheridan    | 1 May 2003       |
| Duncan McCausland | 1 September 2002 |
| Roy Toner         | 1 September 2002 |
| Judith Gillespie  | 19 May 2004      |
| Drew Harris       | 13 March 2006    |
| Alistair Finlay   | 28 August 2006   |

### Civilian Chief Officers

The appointment dates for current Civilian Chief Officers are as follows

|             |                  |
|-------------|------------------|
| David Best  | 1 October 1999   |
| Joe Stewart | 3 September 2001 |

Unless otherwise stated, Civilian Chief Officers hold appointments which are open ended or until they reach retirement age.

Provision for compensation on early termination, for anything other than misconduct, is subject to the advice of the Northern Ireland Office.

There have been no awards made in respect of early termination during the year.

## Salary and pension entitlement

### Chief Officer Salaries

Remuneration and pension information for the year ended 31 March 2007 is provided for Chief Officers of the PSNI as follows

| Audited information  | <b>Salary<br/>2006-2007<br/>£000</b> | Salary<br>2005-2006<br>£000 |
|--|--------------------------------------|-----------------------------|
| <i>Sir Hugh Orde</i><br>Chief Constable  | 185-190                              | 175-180                     |
| <i>Paul Leighton</i><br>Deputy Chief Constable   | 160-165                              | 145-150                     |
| <i>Peter Sheridan</i><br>Assistant Chief Constable Crime Operations  | 115-120                              | 105-110                     |
| <i>Duncan McCausland</i><br>Assistant Chief Constable Urban  | 110-115                              | 105-110                     |
| <i>Roy Toner</i><br>Assistant Chief Constable Operational Support  | 110-115                              | 105-110                     |
| <i>Judith Gillespie</i><br>Assistant Chief Constable Rural Region  | 100-105                              | 95-100                      |
| <i>Drew Harris</i><br>Assistant Chief Constable Criminal Justice<br>(Full year equivalent for 2005-2006)                             | 95-100                               | 0-5<br>(90-95)              |
| <i>Alistair Finlay (Appointed 28 August 2006)</i><br>Assistant Chief Constable Crime Support<br>(Full year equivalent for 2006-2007) | 70-75<br>(95-100)                    | -                           |
| <i>David Best</i><br>Director of Finance and Support Services  | 105-110                              | 100-105                     |
| <i>Joe Stewart</i><br>Director of Human Resources  | 110-115                              | 110-115                     |

## Note

The above table does not include details of salary to individuals who acted up into post during the year to cover absences due to annual leave.

'Salary' 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 2007 or during the year to 31 March 2006.

**Chief Officer Pension Benefits**

|                                | Accrued pension at age 60 as at 31 March 2007 and related lump sum<br>£000's | Real increase in pension and related lump sum at age 60<br>£000's | CETV at 31 March 2007<br>£000's | CETV at 31 March 2006<br>£000's | Real increase in CETV<br>£000's |
|--------------------------------|--|---|---------------------------------|---------------------------------|---------------------------------|
| Audited information            |  |   |                                 |                                 |                                 |
| Sir Hugh Orde <sup>1</sup>     | 115 – 120  | 2.5 – 5   | 1,401                           | 1,341                           | 41                              |
| Paul Leighton <sup>1</sup>     | 75 – 80  | 2.5 – 5   | 982                             | 929                             | 38                              |
| Peter Sheridan <sup>1</sup>    | 55 – 60  | 2.5 – 5   | 712                             | 679                             | 23                              |
| Duncan McCausland <sup>1</sup> | 40 – 45  | 2.5 – 5   | 513                             | 478                             | 24                              |
| Roy Toner <sup>1</sup>         | 45 – 50  | 2.5 – 5   | 554                             | 522                             | 22                              |
| Judith Gillespie <sup>1</sup>  | 40 – 45  | 2.5 – 5   | 482                             | 439                             | 33                              |
| Drew Harris <sup>1</sup>       | 35 – 40  | 7.5 – 10  | 357                             | 279                             | 69                              |
| Alistair Finlay <sup>1</sup>   | 35 – 40  | 5 – 7.5   | 418                             | 334 <sup>2</sup>                | 78                              |
| David Best                     | 30 – 35  | 2 – 2.5   | 577                             | 541                             | 34                              |
|                                | plus lump sum of<br>100 – 105  | plus lump sum of<br>5 – 7.5                                       |                                 |                                 |                                 |
| Joe Stewart                    | 10 – 15  | 0 – 2.5   | 223                             | 194                             | 28                              |
|                                | plus lump sum of<br>40 – 45  | plus lump sum of<br>5 – 7.5                                       |                                 |                                 |                                 |

## Notes

- 1 PSNI Police Officers have the option of electing for a lump sum paid on retirement (up to 25% of their pension). The figures shown are the gross pension figures assuming no lump sum payment.
- 2 CETV as at 28 August 2006, in line with disclosure requirements.

These pension benefits are provided through two pension schemes depending on the employment status of the individual. Details of these schemes are as follows

*Principal Civil Service Pension Scheme (NI)*

Pension benefits for PSNI Direct Recruits and Civil Servants seconded from the Department of Finance and Personnel (DFP) are provided through the Principal Civil Service Pension Scheme (NI) (PCSPS (NI)). From 1 October 2002, direct recruits and civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

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

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a selection of approved products. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of future provision of lump sum benefits on death in service and ill health retirement of these employees.

#### *PSNI Police Pension Scheme*

Pension benefits for PSNI Police Chief Officers are provided through the PSNI Police Pension Scheme. This is a statutory scheme that provides benefits on an "Average Pensionable Pay (APP)" basis at the retirement age, which is compulsory at the age of 65.

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, children or civil partner, 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 five times pensionable pay is payable, subject to scheme conditions. Medical retirement is possible in the event of serious ill health. Officers with less than two years service receive a lump sum benefit (gratuity), and those with more than two years service receive an ill-health pension, depending on the number of years of actual pensionable service.

#### *Cash equivalent transfer values*

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

*Real increase in CETV*

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

*Sir Hugh Orde*  
Chief Constable  
Police Service of Northern Ireland

1 October 2007

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

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 comply with the requirements of the Government Financial Reporting Manual and in particular 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 as set out in the Government Financial Reporting Manual have been followed and disclose and explain any material departures in the 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 has appointed the Chief Constable of the Police Service of Northern Ireland as Accounting Officer for the Police Service of Northern Ireland. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the Police service of Northern Ireland, 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

## 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. My responsibilities as Chief Constable and Accounting Officer are set out in the Police (Northern Ireland) 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 2007 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, the Corporate Risk Manager continues to provide training, support and guidance to staff throughout the organisation to ensure that staff are equipped to manage risk.

## The risk and control framework

A Risk Policy Framework document is available to the organisation explaining the underlying approach to risk management and documenting 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 District Command Units (DCU's) reviewed their risk registers in light of priorities selected for 2006-2007. The basic methodology for assessing both the likelihood and impact of risk is now firmly embedded within the organisation but continues to be refined to make it more objective.

A Corporate Risk Register has been in place to highlight the most significant strategic risks facing the organisation for 2006-2007. The Register has been revised and updated to take account of the new priorities for 2007-2008. In addition to the formal quarterly review of the Corporate Risk Register, Chief Officers also consider the Corporate Risk Register on a regular basis at the Chief Constable's Forum. The key risk priorities facing the organisation during 2006-2007 were in the generic areas of funding, procurement, human resourcing, change management and operational policing issues.

Stewardship reporting is a key element of ensuring accountability and ownership of risks and their management within the organisation. All Chief Officers and Senior Managers 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, which is chaired by a Non-Executive Member, 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.

Significant progress has been made in the overall governance arrangements within the organisation and work is currently underway to further improve the operation and reporting arrangements of the governance Committees. In particular, the organisation is continuing to work on developing a systematic process for coordinating assurance and third party reporting. A programme of work has been progressed which is focussed on eliminating duplication of effort from external recommendations by formally capturing, tracking and discharging recommendations from third parties.

Risk management has been 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 within the organisation. The risk and control framework has been the subject of two reviews during 2006-2007. One by Internal Audit, concentrating on risk management at the Corporate level, and one by the Corporate Risk Manager looking at ways of improving risk management across the organisation as a whole. The latter review involved a benchmarking exercise of PSNI Risk Management practices against other UK Police Services and PSNI came out very favourably from the review. The combined results of these reviews has demonstrated the need for further training for key personnel and further development of the Risk Management IT system. Significant progress has already been made in these areas and there is a programme of work in place to continue development throughout 2007-2008.

### 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 and Risk 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, governance and risk.

During the year Deloitte & Touche LLP 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.

As a result of a legal ruling, it was reported last year that both criminal and administrative investigations had been initiated into Procurement Practice within PSNI. These investigations have now been completed. In response, PSNI has implemented and put in practice all the recommendations arising from the investigations. In January 2007, a further Review of Procurement in the Criminal Justice system by the Criminal Justice Inspectorate recognised PSNI as the Organisation which has advanced most in recent years in terms of developing its own Procurement Policy, Strategy and Operating Procedures.

The provision of a new College continues to be central to the future performance of PSNI but aspects of the funding package remain unresolved. PSNI is now in discussions with the Northern Ireland Fire & Rescue Service, the Prison Service, the Strategic Investment Board and the Northern Ireland Office in relation to shared utilization and development of the proposed College. All three parties are currently assessing the qualitative and quantitative benefits associated with this shared public sector approach. Although a broad funding framework has been established, further clarification and agreement will be required prior to the commencement of any procurement. This ongoing delay may have a potentially significant impact on organisational effectiveness.

During the year, PSNI has been required to divert significant resources to the cost of policing historical events and enquiries, with no additional resource being made available. As a result of meeting these pressures, the effect has been a reduction in the level of resources available to other core areas of policing. These developments present an area of increasing concern and are being pursued as a priority.

*Sir Hugh Orde*  
Chief Constable  
Police Service of Northern Ireland

1 October 2007

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

I certify that I have audited the financial statements of the Police Service of Northern Ireland for the year ended 31 March 2007 under the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

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

The Police Service of Northern Ireland and the Chief Constable are responsible for preparing the Annual Report, the Remuneration Report and 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. These responsibilities are set out in the Statement of Responsibilities of the Police Service of Northern Ireland and the Chief Constable.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Police (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. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises the Foreword, Management Commentary and Remuneration Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Police Service of Northern Ireland has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Police Service of Northern Ireland's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of Police Service of Northern Ireland's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

## Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Police Service of Northern Ireland and Chief Constable in the preparation of the financial statements, and of whether the accounting policies are most 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 and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

## Opinions

### **Audit opinion**

In my opinion

- the financial statements give a true and fair view, 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, of the state of the Police Service of Northern Ireland's affairs as at 31 March 2007 and of its deficit for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Police (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
- information given within the Annual Report, which comprises the Foreword, Management Commentary and the unaudited part of the Remuneration Report, is consistent with the financial statements.

### **Audit opinion on regularity**

In my opinion, 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.

### **Report**

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

12 October 2007

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

## Income and Expenditure Account for the year ended 31 March 2007

|   | Notes | Year ended<br>31 March<br>2007<br>£000 | Year ended<br>31 March<br>2006<br>Restated<br>£000 |
|---|-------|--|--|
| <b>Income</b>                                 |       |  |  |
| Operating income                              | 2     | <b>8,152</b>                           | 4,307  |
|   |       | <b>8,152</b>                           | 4,307  |
| <b>Expenditure</b>                            |       |  |  |
| Staff costs                                   | 3     | <b>547,275</b>                         | 553,938  |
| Other operating costs                         | 4     | <b>232,391</b>                         | 176,127  |
| Notional cost of capital                      | 5     | <b>12,624</b>                          | 12,900   |
| Amortisation and depreciation                 | 8, 9  | <b>29,810</b>                          | 27,546   |
|   |       | <b>822,100</b>                         | 770,511  |
| <b>Deficit before exceptional item</b>        |       | <b>(813,948)</b>                       | (766,204)  |
| <b>Exceptional item</b>                       | 6     | <b>(187,000)</b>                       | (4,288)  |
| <b>Deficit before interest</b>                |       | <b>(1,000,948)</b>                     | (770,492)  |
| <b>Interest paid and similar charges</b>      | 7     | <b>(13,387)</b>                        | (7,210)  |
| <b>Deficit for the year</b>                   |       | <b>(1,014,335)</b>                     | (777,702)  |
| Credit in respect of notional cost of capital | 5     | <b>12,624</b>                          | 12,900   |
| <b>Amount transferred from reserves</b>       | 15    | <b>(1,001,711)</b>                     | (764,802)  |

## Statement of total recognised gains and losses for the year ended 31 March 2007

|  |       | <b>Year ended<br/>31 March<br/>2007<br/>£000</b> | Year ended<br>31 March<br>2006<br>£000 |
|--|-------|--|--|
|  | Notes |  |  |
| <b>Deficit for the year</b>                        |       | <b>(1,014,335)</b>                               | (777,702)                              |
| Unrealised surplus on revaluation of fixed assets  | 15    | <b>98,502</b>                                    | 22,995                                 |
| Actuarial loss                                     | 15    | <b>(60,400)</b>                                  | 0                                      |
| <b>Total recognised gain/(losses) for the year</b> |       | <b><u>(976,233)</u></b>                          | <u>(754,707)</u>                       |

*The notes on pages 24 to 37 form part of this account*

All amounts above relate to continuing activities.

- \* Format and figures restated to reflect changes in accounting policy detailed in note 1.2 and the method of calculating the cost of capital.

## Balance Sheet as at 31 March 2007

|  |       | <b>Year ended<br/>31 March<br/>2007</b> | Year ended<br>31 March<br>2006<br>Restated |
|--|-------|---|--|
|  | Notes | <b>£000</b>                             | £000                                       |
| <b>Fixed assets</b>  |       |   |  |
| Intangible fixed assets  | 8     | <b>4,040</b>                            | 3,349                                      |
| Tangible fixed assets  | 9     | <b>647,058</b>                          | 550,602                                    |
|  |       | <b>651,098</b>                          | 553,951                                    |
| <b>Current assets</b>  |       |   |  |
| Stocks   | 10    | <b>6,710</b>                            | 5,242                                      |
| Debtors  | 11    | <b>19,872</b>                           | 18,394                                     |
| Bank and cash  | 16.2  | <b>13,865</b>                           | 12,497                                     |
|  |       | <b>40,447</b>                           | 36,133                                     |
| <b>Creditors: amounts falling due within one year</b>          | 12    | <b>(42,911)</b>                         | (39,674)                                   |
|  |       | <b>(2,464)</b>                          | (3,541)                                    |
| <b>Total assets less current liabilities</b>                   |       | <b>648,634</b>                          | 550,410                                    |
| <b>Creditors: amounts falling due after more than one year</b> |       |   |  |
| Provision for liabilities and charges                          | 13    | <b>(350,210)</b>                        | (101,127)                                  |
| <b>Total assets less total liabilities</b>                     |       | <b>298,424</b>                          | 449,283                                    |
| <b>Financed by</b>   |       |   |  |
| <b>Capital and reserves</b>                                    |       |   |  |
| General Fund   | 15    | <b>57,011</b>                           | 305,862                                    |
| Revaluation Reserve  | 15    | <b>241,413</b>                          | 143,421                                    |
|  |       | <b>298,424</b>                          | 449,283                                    |

*The notes on pages 24 to 37 form part of this account*

\* Format and figures restated to reflect change in accounting policy detailed in note 1.2.

Sir Hugh Orde  
Chief Constable  
Police Service of Northern Ireland

1 October 2007



## Cash Flow Statement for the year ended 31 March 2007

|   | Notes    | <b>Year ended<br/>31 March<br/>2007<br/>£000</b> | Year ended<br>31 March<br>2006<br>Restated<br>£000 |
|---|----------|--|--|
| <b>Net cash outflow from operating activities</b> | 16.1     | <b>(773,447)</b>                                 | (840,299)  |
| <b>Capital expenditure</b>                        |          |  |  |
| Purchase of intangible fixed assets               | 16.3     | <b>(1,969)</b>                                   | (3,433)  |
| Purchase of tangible fixed assets                 | 16.3     | <b>(39,731)</b>                                  | (36,814)   |
| Proceeds from disposal of tangible fixed assets   |          | <b>5,180</b>                                     | 2,307  |
| <b>Net cash outflow from Capital Expenditure</b>  |          | <b>(36,520)</b>                                  | (37,940)   |
| <b>Financing</b>                                  |          |  |  |
| Grant-in-aid                                      | 14       | <b>769,098</b>                                   | 840,993  |
| Capital Grant to acquire fixed assets             | 14, 16.3 | <b>42,237</b>                                    | 39,694   |
| <b>Net cash inflow from financing</b>             |          | <b>811,335</b>                                   | 880,687  |
| <b>Increase in cash</b>                           | 16.2     | <b>1,368</b>                                     | 2,448  |

*The notes on pages 24 to 37 form part of this account*

\* Format and figures restated to reflect change in accounting policy detailed in note 1.2.

# Notes to the Annual Financial Statements for the year ended 31 March 2007

## 1 Statement of accounting policies

These financial statements have been prepared in accordance with the 2006-2007 Government Financial Reporting Manual (FRM) issued by the Treasury. The accounting policies contained in the FRM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

### 1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the business by reference to their current costs.

### 1.2 Change of accounting policy

With effect from the 2006-2007 reporting period, the FRM requires the PSNI to account for grants and grants-in-aid received for revenue purposes as financing because they are regarded as contributions from a controlling party. This is a change in accounting policy from earlier periods when such items were recorded as income. The effect of this change on the audited 2005-2006 accounts and the impact of the change in the results of the current year is shown below. Note there is no impact on the net liability position of the PSNI as a result of this change in policy.

|                                       | At 31 March 2006<br>(as stated previously)           | Impact of adopting<br>new policy | At 31 March 2006<br>(restated)                |
|---------------------------------------|--|----------------------------------|---|
| Amount transferred to/(from) reserves | 107,572  | (872,374)                        | (764,802)                                     |
| General reserve                       | (104,668)  | 410,530                          | 305,862                                       |
| Government grant reserve              | 553,951  | (553,951)                        | Nil   |
| Revaluation reserve                   | Nil  | 143,421                          | 143,421                                       |
|                                       | At 31 March 2007<br>(without applying<br>new policy) | Impact of adopting<br>new policy | At 31 March 2007<br>(applying the new policy) |
| Amount transferred to/(from) reserves | (192,760)  | (808,951)                        | (1,001,711)                                   |
| General Reserve                       | (352,674)  | 409,685                          | 57,011  |
| Government Grant Reserve              | 651,098  | (651,098)                        | Nil   |
| Revaluation Reserve                   | Nil  | 241,413                          | 241,413                                       |

### 1.3 Fixed assets and depreciation

Fixed assets are stated at lower of replacement cost and recoverable amount. All properties are revalued in full every five 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.

#### *1.4 Intangible Assets – Software Licences*

Software licences are included at cost and amortised over a three year period which is estimated to be their useful economic life.

#### *1.5 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.

#### *1.6 Pension costs*

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

Police Staff are members of the Principal Civil Service Pension Scheme (NI) (PCSPS (NI)) which is an unfunded defined benefit scheme. The PCSPS (NI) 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 existing PSNI Police Pension Scheme or the New Police Pension Scheme, introduced from 6 April 2006. Separate Police Pension Accounts have been prepared by PSNI for the year ended 31 March 2007.

PSNI contributes a percentage of pensionable earnings towards their employees superannuation, at the Accruing Superannuation Liability Charge (ASLC) rates, determined by the Government Actuary and advised by HM Treasury. Further details are provided in note 3 of the Financial Statements.

#### *1.7 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.

#### *1.8 Stock*

Stock is stated at the lower of cost and net realisable value. Provision is made for obsolete, slow moving or defective items where appropriate.

#### *1.9 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.

#### *1.10 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.

#### *1.11 Provision for Early retirement costs*

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

### 1.12 Provision for Injury Awards

Provision is made for the costs of providing injury awards to Police Officers based on the current number of injury awards and also on estimated life expectancy of these pensioners. The liability is measured on an actuarial basis by the Government Actuary's Department. Actuarial gains and losses are recognised in the Statement of Total Recognised Gains and Losses.

### 1.13 Provision for stock

Provision is made for obsolete, slow moving or defective items where appropriate.

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.

### 1.14 Leases

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

### 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 Operating income

|  | <b>Year ended<br/>31 March<br/>2007<br/>£000</b> | Year ended<br>31 March<br>2006<br>£000 |
|--|--|--|
| Fees for firearms certificates, permits and accident reports | <b>1,354</b>                                     | 1,399                                  |
| Police transport   | <b>319</b>                                       | 316                                    |
| Profit on disposal of fixed assets                           | <b>1,679</b>                                     | 20                                     |
| Other  | <b>4,800</b>                                     | 2,572                                  |
|  | <b>8,152</b>                                     | 4,307                                  |

## 3 Staff costs

|                                       |                |         |
|---------------------------------------|----------------|---------|
| Wages and salaries                    | <b>433,131</b> | 440,903 |
| Social security costs                 | <b>37,496</b>  | 40,212  |
| Pension costs (employer contribution) | <b>62,629</b>  | 62,516  |
| Secondments/Agency                    | <b>14,019</b>  | 10,307  |
|                                       | <b>547,275</b> | 553,938 |

The average number of employees over the year is as follows

|                          | <b>Number</b> | Number |
|--------------------------|---------------|--------|
| Chief Officers           | <b>10</b>     | 9      |
| PSNI (police staff)      | <b>2,893</b>  | 3,120  |
| PSNI (police officers)   | <b>8,360</b>  | 8,604  |
| PSNI (part-time reserve) | <b>821</b>    | 893    |
| Secondments              | <b>17</b>     | 7      |
| Agency                   | <b>712</b>    | 568    |
|                          | <b>12,813</b> | 13,201 |

### **Principal civil service pension scheme (NI)**

Pension benefits for PSNI Direct Recruits and Civil Servants seconded from the Department of Finance and Personnel (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 2006-2007, employers' contributions of £8,798,552 were paid to the PCSPS (NI) (2005-2006: £8,852,029) at one of four rates in the range 16.5% to 23.5% of pensionable pay, based on salary bands. 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 any of the four appointed stakeholder pension providers. Any employer contributions would be age-related and range from 3 to 12.5% of pensionable pay. Employers are also required to match any employee contributions up to 3% of pensionable pay. In addition, no employer contributions 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.

### **PSNI Police Pension Schemes**

Pension benefits for PSNI officers, including full time reserves, are provided through the PSNI Police Pension Scheme (PPS) and from 6 April 2006, the New Police Pension Scheme (NPPS).

#### **Police Pension Scheme (PPS)**

This is a statutory scheme that provides benefits on an 'Average Pensionable Pay (APP)' basis at age 55 regardless of rank. It is a defined benefits final salary scheme. All officers are entitled to work to age 60 and can apply for five yearly extensions after age 60.

For 2006-2007, employers' contributions of £53,014,174 were paid to the PSNI Police Pension Scheme (2005-2006: £53,663,678) at the rate of 20.25% of pensionable pay. 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 five times pensionable pay is payable, subject to scheme conditions. Medical retirement is possible in the event of serious ill health. Officers with less than two years service receive a lump sum benefit (gratuity), and those with more than two years service receive an ill-health pension, depending on the number of years of actual pensionable service.

This scheme is now closed to new recruits from the 6 April 2006. Existing officers had a one-off opportunity to transfer to the New Police Pension Scheme.

#### **New Police Pension Scheme (NPPS)**

For 2006-2007, employers' contributions of £816,071 were paid to the PSNI New Police Pension Scheme at the rate of 20.25% of pensionable pay. To qualify for an ordinary retirement pension, an officer must serve to age 55. Benefits accrue at the rate of 1/70th of APP for each year of service up to a maximum of 35/70th of APP. In addition to the pension a defined lump sum of four times pension is payable. Members pay contributions of 9.5% of basic

pay. Pensions increase in line with the Retail Prices Index. On death, pensions are payable to the surviving spouse, civil partner, unmarried partner 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 three times pensionable pay, and there are also pension benefits for the spouse, civil partner, unmarried partner 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 five times pensionable pay is payable, subject to scheme conditions. There is a two tier medical retirement pension for officers with over two years service. If an officer is permanently disabled for the ordinary duties of a member of PSNI a standard ill health pension is awarded. If an officer is disabled from the ordinary duties of a member of PSNI and permanently disabled for any regular employment an enhanced top-up ill health pension could be awarded.

### Severance payments

Severance Payments have been made from 1 January 2001 to officers leaving the PSNI under the Voluntary Severance or Full Time Reserve programmes for the PSNI. The Schemes were 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 2007 was £50.62m. HM Treasury approved the payments.

## 4 Other operating costs

|   | <b>Year ended<br/>31 March<br/>2007<br/>£000</b> | Year ended<br>31 March<br>2006<br>£000 |
|---|--|--|
| Transport   | <b>11,714</b>                                    | 12,386                                 |
| IT and communications                             | <b>32,195</b>                                    | 32,532                                 |
| Accommodation services                            | <b>41,605</b>                                    | 37,145                                 |
| General expenses                                  | <b>63,630</b>                                    | 51,174                                 |
| Travel, subsistence and relocation                | <b>10,455</b>                                    | 10,778                                 |
| Audit fees  | <b>68</b>  | 66                                     |
| Hospitality                                       | <b>214</b>                                       | 120                                    |
| Reclassification of capital expenditure           | <b>0</b>   | 1,383                                  |
| Downward revaluation in fixed assets (see note 9) | <b>11,720</b>                                    | 3,855                                  |
| Net Increase in Provisions (see note 13)          | <b>59,713</b>                                    | 25,364                                 |
| Charges for operating leases: photocopiers        | <b>308</b>                                       | 407                                    |
| property  | <b>769</b>                                       | 917                                    |
|   | <b>232,391</b>                                   | 176,127                                |

## 5 Notional cost of capital

|  |                | Restated |
|--|----------------|----------|
| Total assets excluding cash less total liabilities at 31 March | <b>436,786</b> | 300,354  |
| Total assets excluding cash less total liabilities at 31 March | <b>284,559</b> | 436,786  |
| Cost of capital (3.5% of average)                              | <b>12,624</b>  | 12,900   |

## 6 Exceptional item

### *Injury Awards (2006-2007)*

Following a change to the tax regime, from April 2006 injury awards are no longer permitted to be part of pension schemes and the relevant costs are therefore now recognised in the PSNI's main financial statements. The pension liability relating to injury awards was valued at £187m as at 31 March 2006 by the Government Actuary's Department, and has been charged as an exceptional item to the Income and Expenditure Account (see note 13).

*Pension Liability (2005-2006)*

Pension benefits for direct recruits of PSNI were previously provided through the PSNI (Civilian) Pension Scheme, which was analogous to the PCSPS(NI). 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. This Scheme has since been wound up with the transfer of liability (valued at £82.3m by the GAD, including £15.7m interest) being made to DFP on 1 December 2005. The additional interest charge during 2005-2006 was £4.288m.

**7 Interest paid and similar charges**

|                                  | <b>Year ended<br/>31 March<br/>2007<br/>£000</b> | Year ended<br>31 March<br>2006<br>£000 |
|----------------------------------|--|--|
| Unwind of discount on provisions | <b>13,387</b>                                    | 7,210                                  |

**8 Intangible fixed assets**

Software Licences

**Cost**

|             |              |       |
|-------------|--------------|-------|
| At 1 April  | <b>3,433</b> | 0     |
| Additions   | <b>1,973</b> | 3,433 |
| Disposals   | <b>0</b>     | 0     |
| Transfers   | <b>0</b>     | 0     |
| At 31 March | <b>5,406</b> | 3,433 |

**Amortisation**

|                 |              |    |
|-----------------|--------------|----|
| At 1 April      | <b>84</b>    | 0  |
| Charged in year | <b>1,282</b> | 84 |
| Disposals       | <b>0</b>     | 0  |
| At 31 March     | <b>1,366</b> | 84 |

**Net book value**

|                    |              |       |
|--------------------|--------------|-------|
| <b>At 31 March</b> | <b>4,040</b> | 3,349 |
|--------------------|--------------|-------|

Software licences are included at cost and amortised over a three year period which is estimated to be their useful economic life.

**9 Tangible fixed assets**

|                                   | Land and Buildings<br>£000 | Assets in Course of Construction<br>£000 | Operational (inc Plant and Equip)<br>£000 | Vehicles (inc Aircraft)<br>£000 | IT and Comms<br>£000 | Total<br>£000  |
|-----------------------------------|----------------------------|--|---|---------------------------------|----------------------|----------------|
| <b>Cost and valuation</b>         |                            |  |   |                                 |                      |                |
| At 1 April 2006                   | 536,427                    | 7,307                                    | 10,633                                    | 64,387                          | 84,591               | 703,345        |
| Additions                         | 13,735                     | 14,212                                   | 71  | 3,206                           | 9,040                | 40,264         |
| Disposals                         | (3,393)                    | 0  | (109)                                     | (3,418)                         | (87)                 | (7,007)        |
| Transfers                         | 2,612                      | (4,836)                                  | 0   | 498                             | 1,726                | 0              |
| Revaluation below Historical Cost | (9,085)                    | 0  | (162)                                     | (902)                           | (4,004)              | (14,153)       |
| Revaluation                       | 98,297                     | 0  | 44  | 573                             | 24                   | 98,938         |
| <b>At 31 March 2007</b>           | <b>638,593</b>             | <b>16,683</b>                            | <b>10,477</b>                             | <b>64,344</b>                   | <b>91,290</b>        | <b>821,387</b> |
| <b>Depreciation</b>               |                            |  |   |                                 |                      |                |
| At 1 April 2006                   | 64,771                     | 0  | 5,880                                     | 33,958                          | 48,134               | 152,743        |
| Charged in Year                   | 12,478                     | 0  | 521                                       | 7,529                           | 8,000                | 28,528         |
| Disposals                         | (257)                      | 0  | (70)                                      | (3,139)                         | (64)                 | (3,530)        |
| Revaluation below Historical Cost | (1,460)                    | 0  | (113)                                     | (62)                            | (2,213)              | (3,848)        |
| Revaluation                       | 0                          | 0  | 21  | 392                             | 23                   | 436            |
| <b>At 31 March 2007</b>           | <b>75,532</b>              | <b>0</b>                                 | <b>6,239</b>                              | <b>38,678</b>                   | <b>53,880</b>        | <b>174,329</b> |
| <b>Net book value</b>             |                            |  |   |                                 |                      |                |
| <b>At 31 March 2007</b>           | <b>563,061</b>             | <b>16,683</b>                            | <b>4,238</b>                              | <b>25,666</b>                   | <b>37,410</b>        | <b>647,058</b> |
| At 31 March 2006                  | 471,656                    | 7,307                                    | 4,753                                     | 30,429                          | 36,457               | 550,602        |

The Valuation and Lands Agency carried out an interim valuation of land and buildings on 31 March 2007. 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. The last full valuation of land, buildings and assets in the course of construction was carried out on 31 March 2005.

Other tangible fixed assets were revalued on 31 March 2007 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 £77,598,085 and surplus assets with a net book value of £14,800,000.

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

|                                  |                |
|----------------------------------|----------------|
| Land                             | – £168,500,000 |
| Assets in course of construction | – £16,683,000  |

The total downward revaluation in the year is £11,720,000 (which includes an adjustment of £1,415,000 for disposals in previous years – see note 15.)



**10 Stocks**

|   | <b>Year ended<br/>31 March<br/>2007<br/>£000</b> | Year ended<br>31 March<br>2006<br>£000 |
|---|--|--|
| General stores                                | <b>2,351</b>                                     | 2,363                                  |
| Transport Services stores                     | <b>1,137</b>                                     | 1,332                                  |
| Information and Communication Services stores | <b>2,092</b>                                     | 449                                    |
| Heating oil                                   | <b>475</b>                                       | 487                                    |
| Petrol and diesel                             | <b>655</b>                                       | 611                                    |
|   | <b>6,710</b>                                     | 5,242                                  |

**11a Debtors: amounts falling due within one year**

|                                |               |        |
|--------------------------------|---------------|--------|
| Trade debtors                  | <b>1,145</b>  | 406    |
| Other debtors                  | <b>13,270</b> | 12,120 |
| Prepayments and accrued income | <b>5,457</b>  | 5,868  |
|                                | <b>19,872</b> | 18,394 |

**11b Intra government debtor balances**

|   | <b>Year ended<br/>31 March<br/>2007<br/>£000</b> | Year ended<br>31 March<br>2006<br>£000 |
|---|--|--|
|   | <b>Amounts falling due within one year</b>       |  |
| Balances with NIO Core, its agencies and NDPBs    | <b>4,630</b>                                     | 3,183                                  |
| Balances with other central government bodies     | <b>9,161</b>                                     | 8,647                                  |
| Balances with local authorities                   | <b>90</b>  | 48                                     |
| Balances with NHS Trusts                          | <b>0</b>   | 0                                      |
| Balances with public corporations & trading funds | <b>0</b>   | 0                                      |
| Balances with bodies external to government       | <b>5,991</b>                                     | 6,516                                  |
| <b>Total</b>                                      | <b>19,872</b>                                    | 18,394                                 |

**12a Creditors: amounts falling due within one year**

|                              |               |        |
|------------------------------|---------------|--------|
| Trade creditors              | <b>9,756</b>  | 8,020  |
| Trade accruals               | <b>4,646</b>  | 2,403  |
| Taxation and social security | <b>13,845</b> | 13,382 |
| Payroll accrual              | <b>11,750</b> | 12,803 |
| Other creditors              | <b>2,914</b>  | 3,066  |
|                              | <b>42,911</b> | 39,674 |

**12b Intra government creditor balances**

|   | <b>Amounts falling due within one year</b> |        |
|---|--|--------|
| Balances with NIO Core, its agencies and NDPBs      | <b>741</b>                                 | 283    |
| Balances with other central government bodies       | <b>14,129</b>                              | 14,842 |
| Balances with local authorities                     | <b>10</b>                                  | 13     |
| Balances with NHS Trusts                            | <b>1</b>                                   | 0      |
| Balances with public corporations and trading funds | <b>163</b>                                 | 50     |
| Balances with bodies external to government         | <b>27,867</b>                              | 24,486 |
| <b>Total</b>  | <b>42,911</b>                              | 39,674 |

**13 Provisions for liabilities and charges**

|                         | Voluntary<br>and FTR<br>Severance<br>£000 | Compensation<br>Claims<br>£000 | Pension<br>Liability<br>£000 | Stock<br>£000 | Early<br>retirement<br>£000 | Total<br>£000  |
|-------------------------|---|--------------------------------|------------------------------|---------------|-----------------------------|----------------|
| At 1 April 2006         | 91,088                                    | 9,392                          | 0                            | 628           | 19                          | 101,127        |
| Exceptional item        | 0   | 0                              | 187,000                      | 0             | 0                           | 187,000        |
| Utilised in Year        | (50,618)                                  | (6,916)                        | (13,414)                     | (240)         | (229)                       | (71,417)       |
| Provision not utilised  | (6,653)                                   | (36)                           | 0                            | 0             | 0                           | (6,689)        |
| Discount unwind         | 3,188                                     | 329                            | 9,870                        | 0             | 0                           | 13,387         |
| Actuarial loss          | 0   | 0                              | 60,400                       | 0             | 0                           | 60,400         |
| Increase in Provision   | 44,494                                    | 16,537                         | 4,994                        | 133           | 244                         | 66,402         |
| <b>At 31 March 2007</b> | <b>81,499</b>                             | <b>19,306</b>                  | <b>248,850</b>               | <b>521</b>    | <b>34</b>                   | <b>350,210</b> |

*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, 316 officers left the Service. The provision is in respect of a further 768 officers estimated to leave during 2007-2008 and 2008-2009. This provision 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 19 on contingent liabilities.

*Full Time Reserve (FTR) Programme*

The position on the Full Time Reserve was highlighted 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 Policing Board, the Chief Constable carried out security reviews in September 2004 and September 2007 announcing his decision on the future of the Full Time Reserve.

In September 2004, out of the 1,487 Full Time Reserve officers, 680 were retained on the basis of three year contracts from 1 April 2005. The remaining officers were released in a phased manner across an 18 month period from the termination of their contracts. These costs have been provided for in the above note.

More recently, in September 2007 the decision was taken on the remaining 680 officers. It has been decided to reduce the number of officers by 299 over a period of around 12 months from 1 April 2008. The remaining 381 officers are expected to leave by March 2011, when the Severance Scheme will end. The estimated costs of releasing all 680 Full Time Reserve officers are approximately £85m. These costs have not been provided for in the above note as the decision in relation to the remaining Full Time Reserve had not been taken at the balance sheet date.

*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<br>Claims<br>£000 | Damage<br>claims<br>£000 | Legal Fees<br>£000 | Total<br>£000 |
|----------------------------------|--------------------------|--------------------------|--------------------|---------------|
| At 1 April 2006                  | 4,742                    | 192                      | 4,458              | 9,392         |
| Utilised in Year                 | (3,431)                  | (113)                    | (3,372)            | (6,916)       |
| Provision not utilised           | -                        | (36)                     | -                  | (36)          |
| Discount unwind                  | 166                      | 7                        | 156                | 329           |
| Increase/(decrease) in Provision | 8,451                    | (5)                      | 8,091              | 16,537        |
| <b>At 31 March 2007</b>          | <b>9,928</b>             | <b>45</b>                | <b>9,333</b>       | <b>19,306</b> |

At the 31 March 2007 there were 3,351 'live' injury or wrongful acts claims and 113 '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 19, reflects that the PSNI 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.

*Injury awards*

Following a change to the tax regime, from April 2006 injury awards are no longer permitted to be part of pension schemes and the relevant costs are now recognised in the PSNI's main financial statements. The pension liability relating to injury awards has been valued by the Government Actuary's Department. This year an actuarial loss has arisen due to a change in the financial assumptions used to calculate the outstanding liability at the year end.

*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 £521,000 of stock initially transferred may not be issued by the end of the contract, and therefore this amount has been provided for in full.

*Early retirement*

This is the result of decisions taken to allow individuals to retire early from the service with the PSNI agreeing to meet their pension costs until their normal retirement age. This liability is estimated at £34,000 as at 31 March 2007.

**14 Grant-in-aid**

|                      | <b>Year ended<br/>31 March<br/>2007<br/>£000</b> | Year ended<br>31 March<br>2006<br>Restated<br>£000 |
|----------------------|--|--|
| Revenue              | <b>695,606</b>                                   | 763,380  |
| Patten severance     | <b>53,902</b>                                    | 55,930   |
| Patten non severance | <b>19,590</b>                                    | 21,683   |
|                      | <b>769,098</b>                                   | 840,993  |
| Capital              | <b>42,237</b>                                    | 39,694   |
|                      | <b>811,335</b>                                   | 880,687  |

**15 Reconciliation of government funds**

|   | <b>31 March<br/>2007</b> |   | 31 March<br>2006<br>Restated |                                |
|---|--------------------------|---|------------------------------|--------------------------------|
|   | General<br>Fund<br>£000  | <b>Revaluation<br/>Reserve<br/>£000</b> | General<br>Fund<br>£000      | Revaluation<br>Reserve<br>£000 |
| At 1 April                                      | 305,862                  | <b>143,421</b>                          | 189,977                      | 120,426                        |
| Transfer to income and expenditure account      | (1,001,711)              | <b>0</b>                                | (764,802)                    | 0                              |
| Grant-in-aid (note 14)                          | 811,335                  | <b>0</b>                                | 880,687                      | 0                              |
| Surplus on revaluation of fixed assets (note 9) | 0                        | <b>98,502</b>                           | 0                            | 22,995                         |
| Adjustment for disposal in previous years       | 0                        | <b>1,415</b>                            | 0                            | 0                              |
| Realised surplus on disposals of fixed assets   | 1,925                    | <b>(1,925)</b>                          | 0                            | 0                              |
| Actuarial loss (note 13)                        | (60,400)                 | <b>0</b>                                | 0                            | 0                              |
| At 31 March                                     | <u>57,011</u>            | <u><b>241,413</b></u>                   | <u>305,862</u>               | <u>143,421</u>                 |

**16 Notes to Cash Flow Statement***16.1 Reconciliation of operating deficit to net cash outflow from operating activities*

|   | <b>Year ended<br/>31 March<br/>2007<br/>£000</b> | Year ended<br>31 March<br>2006<br>Restated<br>£000 |
|---|--|--|
| Deficit for the year before interest and exceptional item | <b>(813,948)</b>                                 | (766,204)  |
| Interest  | <b>(13,387)</b>                                  | (7,210)  |
| Depreciation  | <b>29,810</b>                                    | 27,546   |
| Profit on disposal of fixed assets                        | <b>(1,679)</b>                                   | (20)   |
| Notional cost of capital                                  | <b>12,624</b>                                    | 12,900   |
| Reclassification of capital expenditure                   | <b>0</b>   | 1,383  |
| Revaluation below Historical Cost                         | <b>11,720</b>                                    | 3,855  |
| (Increase)/decrease in stock                              | <b>(1,468)</b>                                   | 1,010  |
| (Increase)/decrease in debtors                            | <b>(1,502)</b>                                   | 964  |
| Increase in creditors                                     | <b>2,700</b>                                     | (6,863)  |
| Increase in provisions                                    | <b>246,713</b>                                   | 29,652   |
| Provisions used   | <b>(71,417)</b>                                  | (140,234)  |
| Unwinding of discount                                     | <b>13,387</b>                                    | 7,210  |
| Adjustment for exceptional item (note 6)                  | <b>(187,000)</b>                                 | (4,288)  |
| Net cash outflow from operating activities                | <u><b>(773,447)</b></u>                          | <u>(840,299)</u>                                   |

## 16.2 Reconciliation of net cash inflow to movement in net debt

|                          | <b>Year ended<br/>31 March<br/>2007<br/>£000</b> | Year ended<br>31 March<br>2006<br>Restated<br>£000 |
|--------------------------|--|--|
| Cash in bank at 1 April  | <b>12,497</b>                                    | 10,049   |
| Net cash inflow          | <b>1,368</b>                                     | 2,448  |
| Cash in bank at 31 March | <b>13,865</b>                                    | 12,497   |

All of the above cash is held in commercial bank accounts.

## 16.3 Reconciliation of capital grant to purchase of fixed assets

|                                       |                |         |
|---------------------------------------|----------------|---------|
| Purchase of intangible fixed assets   | <b>1,969</b>   | 3,433   |
| Purchase of tangible fixed assets     | <b>39,731</b>  | 36,814  |
| Opening capital creditors             | <b>(1,195)</b> | (1,748) |
| Closing capital creditors             | <b>1,732</b>   | 1,195   |
| Capital Grant to acquire fixed assets | <b>42,237</b>  | 39,694  |

**17 Capital commitments**

|                               |                |         |
|-------------------------------|----------------|---------|
| Contracted                    | <b>22,861</b>  | 38,751  |
| Authorised but not contracted | <b>117,195</b> | 93,179  |
|                               | <b>140,056</b> | 131,930 |

**18 Obligations under leases**

Annual commitments under non-cancellable operating leases are as follows

|                                      | Land and Buildings                               |  | Other  |  |
|--------------------------------------|--|--|--|--|
|                                      | <b>Year ended<br/>31 March<br/>2007<br/>£000</b> | Year ended<br>31 March<br>2006<br>£000 | <b>Year ended<br/>31 March<br/>2007<br/>£000</b> | Year ended<br>31 March<br>2006<br>£000 |
| <i>Operating Leases which expire</i> |  |  |  |  |
| Within one year                      | <b>2</b>   | 45                                     | <b>2</b>   | 13                                     |
| In two to five years                 | <b>353</b>                                       | 45                                     | <b>162</b>                                       | 157                                    |
| In over five years                   | <b>55</b>  | 409                                    | <b>0</b>   | 0                                      |
|                                      | <b>410</b>                                       | 499                                    | <b>164</b>                                       | 170                                    |

**19 Contingent liabilities***Voluntary Severance*

Details of the voluntary severance schemes beyond 2008-2009 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 700 officers leaving under the scheme at an estimated cost of approximately £78m. 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 5585 former and serving police officers. The hearing for this case began in November 2005 and concluded in June 2006. A judgement was recently delivered in June 2007 which found in favour of the PSNI under four of the five headings. The judge specifically referred to the formidable tasks individual plaintiffs may have in pursuing claims. This was confirmed by the successful defence by the PSNI in respect of the 10 lead cases. It will take some time to analyse the full detail of the court's findings and to assess the implications of any appeal. It is therefore not considered appropriate to provide further disclosure at this time.

*Working Time Regulations Cases*

Approximately 6200 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. Since then over 1800 applications have been withdrawn and initial indications are that any remaining individual settlement would be small. However, each case will be scrutinised separately and this process will take time to resolve.

*Claims resulting from security breaches*

The Chief Constable is named Defendant from 321 current and ex-police officers, members of his police staff and family members, arising out of a breach of security. The action is still at an early stage.

*Hearing loss cases*

The PSNI is named Defendant in a number of claims from current and ex-police officers for occupational hearing loss. These claims are reflected in the compensation provision (note 13). However, the number of claims likely to be received in the future is uncertain and cannot be reliably estimated. Each case will be considered on its merits and any settlement based on the severity of hearing loss.

Due to the unusual nature of the four 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.

**20 Losses and special payments**

|   | No of cases | £000  |
|---|-------------|-------|
| Type                                      |             |       |
| Cash Losses                               | 8           | 2     |
| Overpayments                              | 55          | 68    |
| Stores                                    | 67          | 207   |
| Claims Waived or Abandoned                | 689         | 560   |
| Special Payments – Compensation           | 510         | 3,361 |
| Fruitless Payment and Constructive Losses | 5           | 1     |

**21 Related party disclosures**

PSNI is a body of constables, funded through the Policing Board 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 with PSNI.

## 22 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.

|   | <b>Year ended<br/>31 March<br/>2007<br/>£000</b> | Year ended<br>31 March<br>2006<br>Restated<br>£000 |
|---|--|--|
| Bank Balances and Monetary Sealed Packages held | <b>1,732</b>                                     | 1,425  |

## Foreword – 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.

### Principal activities

The Police Service of Northern Ireland (PSNI) exists to provide effective, high quality and professional policing to all of the people living in Northern Ireland. It aims to do this by working closely with, and in, the whole community. 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.

### Accounts direction

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.

### Chief Officers

The Chief Officers who served throughout the year, except as noted, were as follows

*Sir Hugh Orde*

Chief Constable

*Paul Leighton*

Deputy Chief Constable

*Peter Sheridan*

Assistant Chief Constable Crime Operations

*Roy Toner*

Assistant Chief Constable Operational Support

*Drew Harris*

Assistant Chief Constable Criminal Justice

*Duncan McCausland*

Assistant Chief Constable Urban Region

*Judith Gillespie*

Assistant Chief Constable Rural Region

*Alistair Finlay (appointed in August 2006)*

Assistant Chief Constable Crime Support

*David Best*

Director of Finance & Support Services

*Joseph Stewart*

Director of Human Resources



Further details are provided in the Main Annual Financial Statements of the PSNI.

## Corporate Governance

Corporate Governance within PSNI is structured on a committee model, reporting to the Chief Constable's Forum (CCF) made up of all Chief Officers and chaired by the Chief Constable.

Each sub committee of the CCF consists of relevant Chief Officers and other members of the Senior Management Team. These committees provide a conduit through which major policy decisions are formulated and exercise responsibility for specific aspects of governance within the Police Service.

The key sub committees supporting the CCF are the

- Information Management Steering Group
- Strategic Tasking Coordinating Group
- Finance, Personnel and Training Committee
- Organisational Development Committee
- Supplies, Estates and Transport Committee
- Audit and Risk Committee

The role of the Audit and Risk Committee is to advise the Chief Constable on the adequacy of internal control arrangements including risk management and governance. This committee includes two Non-Executive Members, one as Chair, with both Internal and External Audit invited to attend.

## Company directorships

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

## Fixed assets

The Police Property Fund has no fixed assets.

## Research and development

The Police Property Fund has no activities in the field of research and development.

## 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.

## Post balance sheet events

The Annual Report and Accounts were authorised to be issued and laid in the Houses of Parliament on 8 October 2007. There are no other post balance sheet events to be noted.

## Future developments

There are no plans to significantly develop the activities or scope of the Police Property Fund.

## Charitable contributions

No political donations were made during the year. On the direction of the Northern Ireland Policing Board, Charitable donations of £13,000 were made during the year and these are detailed in note 2 on page 50.

## 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.

## Payment of suppliers

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 Property Fund are made through the PSNI. PSNI paid 94.6% of all invoices within 30 days of the date on which it was registered for payment during the period.

## Pension liabilities

The pension liabilities of Police Officers are accounted for separately in the PSNI Police Pension Scheme Accounts. Pension benefits and liabilities for Police Staff are provided through the Principal Civil Service Pension Scheme (NI).

## Audit services

The National Audit Office is 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 £2,500 (2005-2006: £2,500).

So far as the Chief Constable is aware, there is no relevant audit information of which the Comptroller and Auditor General is unaware. The Chief Constable has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Comptroller and Auditor General is aware of that information.

## Chief Constable's Annual Report

A certified copy of these Police Property Fund Financial Statements will be included on the PSNI's website ([www.psn.police.uk](http://www.psn.police.uk)), as an addendum to the Chief Constable's 2006-2007 Annual Report, which was published in June 2007.

# Management Commentary

## Nature of the business

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.

## Review of performance and financial position

The Income and Expenditure Account is set out on page 47 and shows a deficit of £9,526 (2005-2006: £11,077 surplus). Charitable donations of £13,000 were made during the year on the direction of the Northern Ireland Policing Board. The General Fund decreased from £26,286 (31 March 2006) to £16,760 (31 March 2007).

The financial statements have been prepared on a going concern basis of accounting.

## Risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the PSNI's long-term performance. These risks are managed as part of the PSNI's wider risk and control framework. Details are provided in the Main Annual Financial Statements of the PSNI.

## Remuneration report

There are no salaries or pensions paid from the Police Property Fund. Details of the PSNI Chief Officer salaries and pensions are detailed in the Main Annual Financial Statements of the PSNI.

*Sir Hugh Orde*  
Chief Constable  
Police Service of Northern Ireland

1 October 2007

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

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 comply with the requirements of the Government Financial Reporting Manual and in particular 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 as set out in the Government Financial Reporting Manual have been followed and disclose and explain any material departures in the 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 has appointed the Chief Constable of the Police Service of Northern Ireland as Accounting Officer for the Police Property Fund. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the fund, 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

## 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. My responsibilities as Chief Constable and Accounting Officer are set out in the Police (Northern Ireland) 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 2007 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, the Corporate Risk Manager continues to provide training, support and guidance to staff throughout the organisation to ensure that staff are equipped to manage risk.

## The risk and control framework

A Risk Policy Framework document is available to the organisation explaining the underlying approach to risk management and documenting 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 2006-2007. The basic methodology for assessing both the likelihood and impact of risk is now firmly embedded within the organisation but continues to be refined to make it more objective.

A Corporate Risk Register has been in place to highlight the most significant strategic risks facing the organisation for 2006-2007. The Register has been revised and updated to take account of the new priorities for 2007-2008. In addition to the formal quarterly review of the Corporate Risk Register, Chief Officers also consider the Corporate Risk Register on a regular basis at the Chief Constable's Forum. The key risk priorities facing the organisation during 2006-2007 were in the generic areas of funding, procurement, human resourcing, change management and operational policing issues.

Stewardship reporting is a key element of ensuring accountability and ownership of risks and their management within the organisation. All Chief Officers and Senior Managers 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, which is chaired by a Non-Executive Member, 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.

Significant progress has been made in the overall governance arrangements within the organisation and work is currently underway to further improve the operation and reporting arrangements of the governance Committees. In particular, the organisation is continuing to work on developing a systematic process for coordinating assurance and third party reporting. A programme of work has been progressed which is focussed on eliminating duplication of effort from external recommendations by formally capturing, tracking and discharging recommendations from third parties.

Risk management has been 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 within the organisation. The risk and control framework has been the subject of two reviews during 2006-2007. One by Internal Audit, concentrating on risk management at the Corporate level, and one by the Corporate Risk Manager looking at ways of improving risk management across the organisation as a whole.

The latter review involved a benchmarking exercise of PSNI Risk Management practices against other UK Police Services and PSNI came out very favourably from the review. The combined results of these reviews has demonstrated the need for further training for key personnel and further development of the Risk Management IT system. Significant progress has already been made in these areas and there is a programme of work in place to continue development throughout 2007-2008.

### 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 and Risk 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, governance and risk.

During the year Deloitte & Touche LLP 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 system of internal control.

*Sir Hugh Orde*  
Chief Constable  
Police Service of Northern Ireland

1 October 2007

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

I certify that I have audited the financial statements of the Police Property Fund of the Police Service of Northern Ireland for the year ended 31 March 2007 under the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003. These comprise the Income and Expenditure Account, the Balance Sheet and the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

The Police Service of Northern Ireland and the Chief Constable as Accounting Officer are responsible for preparing the Annual Report and 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. These responsibilities are set out in the Statement of the Police Service of Northern Ireland and Chief Constable's Responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements 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. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises the Foreword and the Management Commentary, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Police Service of Northern Ireland has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

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

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

## Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Police Service of Northern Ireland and Chief Constable in the preparation of the financial statements, and of whether the accounting policies are most 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 fraud or error and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and remuneration report.

## Opinions

### **Audit opinion**

In my opinion

- the financial statements give a true and fair view, 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, of the state of the Police Property Fund of the Police Service of Northern Ireland's affairs as at 31 March 2007 and of its deficit for the year then ended;
- the financial statements audited 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
- information given within the Annual Report, which comprises the Foreword and Management Commentary, is consistent with the financial statements.

### **Audit opinion on regularity**

In my opinion, 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.

### **Report**

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

12 October 2007

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



## Income and Expenditure Account for the year ended 31 March 2007

|   | Notes | <b>Year ended<br/>31 March<br/>2007<br/>£</b> | Year ended<br>31 March<br>2006<br>£ |
|---|-------|---|-------------------------------------|
| <b>Income</b>                                       |       |   |                                     |
| Proceeds from sale of seized and lost property      |       | <b>7,962</b>                                  | 11,506                              |
| Re-imbusement of VAT                                |       | <b>0</b>                                      | 222                                 |
|   |       | <b>7,962</b>                                  | 11,728                              |
| <b>Expenditure</b>                                  |       |   |                                     |
| Charitable donations                                | 2     | <b>(13,000)</b>                               | 0                                   |
| Sundry expenses of collection, storage and disposal |       | <b>(803)</b>                                  | (651)                               |
| Other disbursements                                 | 3     | <b>(3,685)</b>                                | 0                                   |
|   |       | <b>(17,488)</b>                               | (651)                               |
| <b>(Deficit)/surplus for the year</b>               |       | <b>(9,526)</b>                                | 11,077                              |

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

*The notes on pages 50 to 51 form part of this account*

All amounts above relate to continuing activities.

## Balance Sheet as at 31 March 2007

|                                     | Notes | Year ended<br>31 March<br>2007<br>£ | Year ended<br>31 March<br>2006<br>£ |
|-------------------------------------|-------|-------------------------------------|-------------------------------------|
| <b>Current assets</b>               |       |                                     |                                     |
| Debtor                              | 4     | 17,563                              | 26,937                              |
| <b>Current liabilities</b>          |       |                                     |                                     |
| Creditor                            | 5     | (803)                               | (651)                               |
| <b>Net current assets</b>           |       | <b>16,760</b>                       | 26,286                              |
| Total assets less total liabilities |       | <b>16,760</b>                       | 26,286                              |
| <br>                                |       |                                     |                                     |
| <b>Financed by</b>                  |       |                                     |                                     |
| <b>Reserves</b>                     |       |                                     |                                     |
| General Fund                        | 6     | 16,760                              | 26,286                              |
|                                     |       | <b>16,760</b>                       | 26,286                              |

*The notes on pages 50 to 51 form part of this account*

Sir Hugh Orde  
Chief Constable  
Police Service of Northern Ireland

1 October 2007

## Cash Flow Statement for the year ended 31 March 2007

|  | Notes | <b>Year ended<br/>31 March<br/>2007<br/>£</b> | Year ended<br>31 March<br>2006<br>£ |
|--|-------|---|-------------------------------------|
| <b>Net cash inflow from operating activities</b> | 7     | <b>0</b>                                      | 0                                   |
| <b>Increase/(decrease) in cash</b>               |       | <b>0</b>                                      | 0                                   |

*The notes on pages 50 to 51 form part of this account*

# Notes to the Annual Financial Statements for the year ended 31 March 2007

## 1 Statement of principal accounting policies

These financial statements have been prepared in accordance with the 2006-2007 Government Financial Reporting Manual (FRoM) issued by HM Treasury. The accounting policies contained in the FRoM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

### 1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the business by reference to their current costs.

### 1.2 Value Added Tax

Income is shown exclusive of Value Added Tax. Irrecoverable VAT is charged to the relevant payment category.

### 1.3 Bank

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

## 2 Charitable donations

|  | <b>Year ended<br/>31 March<br/>2007<br/>£</b> | Year ended<br>31 March<br>2006<br>£ |
|--|---|-------------------------------------|
| Child Victims of Crime                         | <b>3,000</b>                                  | 0                                   |
| Home Start Programme-Antrim                    | <b>1,000</b>                                  | 0                                   |
| Forum for Action on Substance Abuse            | <b>1,300</b>                                  | 0                                   |
| An Munia Tober                                 | <b>2,000</b>                                  | 0                                   |
| Northern Ireland Muslims' Families Association | <b>700</b>                                    | 0                                   |
| Child Line Northern Ireland                    | <b>4,000</b>                                  | 0                                   |
| Barnardos 'Beyond the Shadows' Campaign        | <b>1,000</b>                                  | 0                                   |
|  | <b>13,000</b>                                 | 0                                   |

## 3 Other disbursements

The disbursement of £3,685 relates to seized cash in 2005-2006, which was treated as income last year. This had to be paid over to the Home Office in 2006-2007 under the Proceeds of Crime Act as a result of a subsequent decision.

**4 Debtor**

|                         | <b>Year ended<br/>31 March<br/>2007<br/>£</b> | Year ended<br>31 March<br>2006<br>£ |
|-------------------------|---|-------------------------------------|
| Money due from the PSNI | <b>17,563</b>                                 | 26,937                              |

**5 Creditor**

|                       |            |     |
|-----------------------|------------|-----|
| Money due to the PSNI | <b>803</b> | 651 |
|-----------------------|------------|-----|

**6 General fund**

|                                |                |        |
|--------------------------------|----------------|--------|
| Balance at 1 April             | <b>26,286</b>  | 15,209 |
| Add (deficit)/surplus for year | <b>(9,526)</b> | 11,077 |
| Balance at 31 March            | <b>16,760</b>  | 26,286 |

**7 Reconciliation of operating (deficit) / surplus for the year to net cash flow from operating activities**

|                                  |                |          |
|----------------------------------|----------------|----------|
| Operating (deficit)/surplus      | <b>(9,526)</b> | 11,077   |
| Decrease/(increase) in debtors   | <b>9,374</b>   | (10,239) |
| Increase/(decrease) in creditors | <b>152</b>     | (838)    |
|                                  | <b>0</b>       | 0        |

**8 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 – 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.

### Principal activities

The Police Service of Northern Ireland (PSNI) exists to provide effective, high quality and professional policing to all of the people living in Northern Ireland. It aims to do this by working closely with, and in, the whole community. 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.

### Accounts direction

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.

### Chief officers

The Chief Officers who served throughout the year, except as noted, were as follows

*Sir Hugh Orde*

Chief Constable

*Paul Leighton*

Deputy Chief Constable

*Peter Sheridan*

Assistant Chief Constable Crime Operations

*Roy Toner*

Assistant Chief Constable Operational Support

*Drew Harris*

Assistant Chief Constable Criminal Justice

*Duncan McCausland*

Assistant Chief Constable Urban Region

*Judith Gillespie*

Assistant Chief Constable Rural Region

*Alistair Finlay (appointed in August 2006)*

Assistant Chief Constable Crime Support

*David Best*

Director of Finance & Support Services

*Joseph Stewart*

Director of Human Resources

Further details are provided in the Main Annual Financial Statements of the PSNI.

## Corporate Governance

Corporate Governance within PSNI is structured on a committee model, reporting to the Chief Constable's Forum (CCF) made up of all Chief Officers and chaired by the Chief Constable.

Each sub committee of the CCF consists of relevant Chief Officers and other members of the Senior Management Team. These committees provide a conduit through which major policy decisions are formulated and exercise responsibility for specific aspects of governance within the Police Service.

The key sub committees supporting the CCF are the

- Information Management Steering Group
- Strategic Tasking Coordinating Group
- Finance, Personnel and Training Committee
- Organisational Development Committee
- Supplies, Estates and Transport Committee
- Audit and risk committee

The role of the Audit and Risk Committee is to advise the Chief Constable on the adequacy of internal control arrangements including risk management and governance. This committee includes two Non-Executive Members, one as Chair, with both Internal and External Audit invited to attend.

## Company directorships

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

## Fixed assets

The Police Fund only has fixed asset investments.

## Research and development

The Police Fund has no activities in the field of research and development.

## 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.

## Post balance sheet events

The Annual Report and Accounts were authorised to be issued and laid in the Houses of Parliament on 8 October 2007. There are no other post balance sheet events to be noted.

### Future developments

There are no plans to significantly develop the activities or scope of the Police Fund.

### Charitable contributions

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

### 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.

### Payment of suppliers

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 94.6% of all invoices within 30 days of the date on which it was registered for payment during the period.

### Pension liabilities

The pension liabilities of Police Officers are accounted for separately in the PSNI Police Pension Scheme Accounts. Pension benefits and liabilities for Police Staff are provided through the Principal Civil Service Pension Scheme (NI).

### Audit services

The National Audit Office is 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 £2,500 (2005-2006: £2,500).

So far as the Chief Constable is aware, there is no relevant audit information of which the Comptroller and Auditor General is unaware. The Chief Constable has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Comptroller and Auditor General is aware of that information.

### Chief Constable's Annual Report

A certified copy of these Police Fund Financial Statements will be included on the PSNI's website ([www.psnipolice.uk](http://www.psnipolice.uk)), as an addendum to the Chief Constable's 2006-2007 Annual Report, which was published in June 2007.



## Management Commentary

### Nature of the business

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.

### Review of performance and financial position

The Income and Expenditure Account is set out on page 61 and shows a surplus £15,524 (2005-2006: £10,612). There were no charitable donations made during the year and the General Fund increased from £96,484 (31 March 2006) to £112,008 (31 March 2007).

The financial statements have been prepared on a going concern basis of accounting.

### Risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the PSNI's long term performance. These risks are managed as part of the PSNI's wider risk and control framework. Details are provided in the Main Annual Financial Statements of the PSNI.

### Remuneration Report

There are no salaries or pensions paid from the Police Fund. Details of the PSNI Chief Officer salaries and pensions are detailed in the Main Annual Financial Statements of the PSNI.

*Sir Hugh Orde*  
Chief Constable  
Police Service of Northern Ireland

1 October 2007

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

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 comply with the requirements of the Government Financial Reporting Manual and in particular 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 as set out in the Government Financial Reporting Manual have been followed and disclose and explain any material departures in the 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 has appointed the Chief Constable of the Police Service of Northern Ireland as Accounting Officer for the Police Fund. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the fund, 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

## 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. My responsibilities as Chief Constable and Accounting Officer are set out in the Police (Northern Ireland) 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 2007 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, the Corporate Risk Manager continues to provide training, support and guidance to staff throughout the organisation to ensure that staff are equipped to manage risk.

## The risk and control framework

A Risk Policy Framework document is available to the organisation explaining the underlying approach to risk management and documenting 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 2006-2007. The basic methodology for assessing both the likelihood and impact of risk is now firmly embedded within the organisation but continues to be refined to make it more objective.

A Corporate Risk Register has been in place to highlight the most significant strategic risks facing the organisation for 2006-2007. The Register has been revised and updated to take account of the new priorities for 2007-2008. In addition to the formal quarterly review of the Corporate Risk Register, Chief Officers also consider the Corporate Risk Register on a regular basis at the Chief Constable's Forum. The key risk priorities facing the organisation during 2006-2007 were in the generic areas of funding, procurement, human resourcing, change management and operational policing issues.

Stewardship reporting is a key element of ensuring accountability and ownership of risks and their management within the organisation. All Chief Officers and Senior Managers 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, which is chaired by a Non-Executive Member, 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.

Significant progress has been made in the overall governance arrangements within the organisation and work is currently underway to further improve the operation and reporting arrangements of the governance Committees. In particular, the organisation is continuing to work on developing a systematic process for coordinating assurance and third party reporting. A programme of work has been progressed which is focussed on eliminating duplication of effort from external recommendations by formally capturing, tracking and discharging recommendations from third parties.

Risk management has been 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 within the organisation. The risk and control framework has been the subject of two reviews during 2006-2007, one by Internal Audit, concentrating on risk management at the Corporate level, and one by the Corporate Risk Manager looking at ways of improving risk management across the organisation as a whole.

The latter review involved a benchmarking exercise of PSNI Risk Management practices against other UK Police Services and PSNI came out very favourably from the review. The combined results of these reviews has demonstrated the need for further training for key personnel and further development of the Risk Management IT system. Significant progress has already been made in these areas and there is a programme of work in place to continue development throughout 2007-2008.

### 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 and Risk 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, governance and risk.

During the year Deloitte & Touche LLP 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 organisations system of internal control.

*Sir Hugh Orde*  
Chief Constable  
Police Service of Northern Ireland

1 October 2007

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

I certify that I have audited the financial statements of the Police Fund of the Police Service of Northern Ireland for the year ended 31 March 2007 under the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003. These comprise the Income and Expenditure Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the Cash Flow Statement, the related notes and Remuneration Report. These financial statements have been prepared under the accounting policies set out within them.

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

The Police Service of Northern Ireland and the Chief Constable as Accounting Officer are responsible for preparing the Annual Report and 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. These responsibilities are set out in the Statement of the Police Service of Northern Ireland and Chief Constable's responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements 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. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises the Foreword and the Management Commentary, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Police Service of Northern Ireland has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

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

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

## Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Police Service of Northern Ireland and Chief Constable in the preparation of the financial statements, and of whether the accounting policies are most 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 fraud or error and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinions

### **Audit opinion**

In my opinion

- the financial statements give a true and fair view, 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, of the state of the Police Fund of the Police Service of Northern Ireland's affairs as at 31 March 2007 and of its surplus for the year then ended;
- the financial statements audited 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
- information given within the Annual Report, which comprises the Foreword and Management Commentary, is consistent with the financial statements.

### **Audit opinion on regularity**

In my opinion, 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.

### **Report**

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

12 October 2007

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

## Income and Expenditure Account for the year ended 31 March 2007

|   | Notes | <b>Year ended<br/>31 March<br/>2007</b> | Year ended<br>31 March<br>2006<br>Restated |
|---|-------|---|--|
|   |       | <b>£</b>                                | <b>£</b>                                   |
| <b>Income</b>   |       |   |  |
| Dividends and interest  |       | <b>3,049</b>                            | 2,950                                      |
| Other income  | 2     | <b>25,727</b>                           | 17,323                                     |
| Fines on members of the PSNI  |       | <b>12,231</b>                           | 16,084                                     |
|   |       | <b>41,007</b>                           | 36,357                                     |
| <b>Expenditure</b>  |       |   |  |
| Disbursements for the welfare of members of PSNI and their dependants |       | <b>24,892</b>                           | 25,722                                     |
| Administrative costs  |       | <b>12</b>                               | 23   |
|   |       | <b>24,904</b>                           | 25,745                                     |
| <b>Surplus before taxation</b>  |       | <b>16,103</b>                           | 10,612                                     |
| Corporation Tax   |       | <b>579</b>                              | 0  |
| <b>Surplus for the year</b>   |       | <b>15,524</b>                           | 10,612                                     |

## Statement of total recognised gains and losses for the year ended 31 March 2007

|  | Note | <b>Year ended<br/>31 March<br/>2007</b> | Year ended<br>31 March<br>2006<br>Restated |
|--|------|---|--|
|  | 1.4  | <b>£</b>                                | <b>£</b>                                   |
| <b>Surplus for the year</b>                      |      | <b>15,524</b>                           | 10,612                                     |
| (Deficit)/surplus on revaluation of fixed assets |      | <b>(1,025)</b>                          | 1,156                                      |
|  |      | <b>0</b>                                | 0  |
| <b>Total recognised gains for the year</b>       |      | <b>14,499</b>                           | 11,768                                     |

*The notes on pages 65 to 67 form part of this account*

All amounts above relate to continuing activities.



## Balance Sheet as at 31 March 2007

|  | Notes | <b>Year ended<br/>31 March<br/>2007</b> | Year ended<br>31 March<br>2006<br>Restated |
|--|-------|---|--|
|  |       | £                                       | £  |
| <b>Fixed assets</b>                        |       |   |  |
| Investments                                | 3     | <b>63,596</b>                           | 64,621                                     |
| <b>Current assets</b>                      |       |   |  |
| Debtors                                    | 4     | <b>29,424</b>                           | 28,669                                     |
| Bank                                       | 5     | <b>44,935</b>                           | 18,146                                     |
|  |       | <b>74,359</b>                           | 46,815                                     |
| <b>Current liabilities</b>                 |       |   |  |
| Creditors                                  | 6     | <b>(24,367)</b>                         | (12,347)                                   |
| <b>Net current assets</b>                  |       | <b>49,992</b>                           | 34,468                                     |
| <b>Total assets less total liabilities</b> |       | <b>113,588</b>                          | 99,089                                     |
| <b>Financed by</b>                         |       |   |  |
| <b>Reserves</b>                            |       |   |  |
| General Fund                               | 7     | <b>112,008</b>                          | 96,484                                     |
| Revaluation Reserve                        | 8     | <b>1,580</b>                            | 2,605                                      |
|  |       | <b>113,588</b>                          | 99,089                                     |

*The notes on pages 65 to 67 form part of this account*

Sir Hugh Orde  
Chief Constable  
Police Service of Northern Ireland

1 October 2007

## Cash Flow Statement for the year ended 31 March 2007

|  | Notes | <b>Year ended<br/>31 March<br/>2007</b> | Year ended<br>31 March<br>2006<br>Restated |
|--|-------|---|--|
|  |       | <b>£</b>                                | <b>£</b>                                   |
| <b>Net cash inflow from operating activities</b> | 9     | <b>26,789</b>                           | 2,835                                      |
| <b>Increase in cash</b>                          |       | <b>26,789</b>                           | 2,835                                      |

*The notes on pages 65 to 67 form part of this account*

# Notes to the Annual Financial Statements for the year ended 31 March 2007

## **1 Statement of Principal Accounting policies**

These financial statements have been prepared in accordance with the 2006-2007 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

### *1.1 Accounting convention*

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the business by reference to their current costs.

### *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*

As from 1 April 2005 the Police Fund has been treated as a Mutual Trust and is only liable to corporation tax on interest and loan investment interest.

### *1.4 Adjustment to prior year*

An adjustment was made to the figures previously reported for the year ended 31 March 2006. This was due to various disbursements amounting to £7,635 having been incurred in that year but not accrued. The effect of the adjustment has been to reduce the surplus and the balance of the general fund and increase creditors by that amount.

## **2 Other Income**

As a tax efficiency measure Northern Ireland Policing Board agreed to meet expenses incurred by officers and their dependants visiting the Police Convalescent Homes from the Police Fund and to transfer a corresponding amount to the Fund.

**3 Fixed asset investments**

|   | <b>Year ended<br/>31 March<br/>2007</b> | Year ended<br>31 March<br>2006<br>Restated |
|---|---|--|
|   | £                                       | £  |
| 14,200 4% Consolidated Stock at market value (cost £10,016) | <b>11,596</b>                           | 12,621                                     |
| Advances to the Consolidated Fund of Northern Ireland       | <b>52,000</b>                           | 52,000                                     |
|   | <b>63,596</b>                           | 64,621                                     |

**4 Debtors**

|                                     |               |        |
|-------------------------------------|---------------|--------|
| Money due from PSNI                 | <b>29,291</b> | 28,555 |
| Other debtors                       | <b>133</b>    | 0      |
| Money due from HM Revenue & Customs | <b>0</b>      | 114    |
|                                     | <b>29,424</b> | 28,669 |

**5 Bank**

|                               |               |        |
|-------------------------------|---------------|--------|
| Opening bank balance 1 April  | <b>18,146</b> | 15,311 |
| Net cash inflow               | <b>26,789</b> | 2,835  |
| Closing bank balance 31 March | <b>44,935</b> | 18,146 |

**6 Creditors**

|                         |               |        |
|-------------------------|---------------|--------|
| Money due to PSNI       | <b>6,800</b>  | 4,700  |
| Disbursements due       | <b>17,090</b> | 7,635  |
| Administrative expenses | <b>12</b>     | 12     |
| HM Revenue & Customs    | <b>465</b>    | 0      |
|                         | <b>24,367</b> | 12,347 |

**7 General Fund**

|                        |                |        |
|------------------------|----------------|--------|
| Balance as at 1 April  | <b>96,484</b>  | 85,872 |
| Surplus for the year   | <b>15,524</b>  | 10,612 |
| Balance as at 31 March | <b>112,008</b> | 96,484 |

**8 Revaluation reserve**

|   |                |       |
|---|----------------|-------|
| Balance as at 1 April                                       | <b>2,605</b>   | 1,449 |
| (Deficit)/surplus on revaluation of fixed asset investments | <b>(1,025)</b> | 1,156 |
| Balance as at 31 March                                      | <b>1,580</b>   | 2,605 |

**9 Notes to the cash flow statement**

|   |               |          |
|---|---------------|----------|
| Surplus for the year                      | <b>15,524</b> | 10,612   |
| (Increase) in debtors                     | <b>(755)</b>  | (14,994) |
| Increase/(decrease) in Creditors          | <b>12,020</b> | 7,217    |
| Net cash inflow from operating activities | <b>26,789</b> | 2,835    |

## **10 Related party disclosures**

PSNI is a body of constables funded through the Northern Ireland Policing Board, 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.

## Report of the Managers – Police Pension Scheme

### Introduction

Following the introduction of the New Police Pension Scheme on 6 April 2006, the Police Service of Northern Ireland (PSNI) now administers two Pension Schemes for police officers. Both of these Schemes, the existing Police Pension (now referred to as the 'closed' scheme) and the New Police Pension Scheme (or 'new' scheme), are included in the Police Pension Accounts. Both Schemes are unfunded defined benefit schemes.

The regulations under which the Closed 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.

The New Police Pensions Scheme regulations are not yet in force but will be retrospective and become effective from 6 April 2006. This is now the only scheme available to new recruits serving in the PSNI. During the year, existing members had a one-off opportunity to transfer to the new scheme.

Membership of these schemes is not compulsory and officers may make other pension arrangements.

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

This is now the fourth standalone Police Pension Accounts. The rationale of preparing separate Pension 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 Pension Accounts, a Revenue Account and FRS 17 information was disclosed as part of the PSNI Annual Financial Statements.

Both the Closed Police Pension Scheme and the New Police Pension Scheme are administered by the PSNI.

The Managers, advisers and employers for both Schemes are as follows

#### **Managers**

##### *Accounting Officer*

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

##### *Pension Scheme Administrator*

Northern Ireland Policing Board  
Waterside Tower  
31 Claredon Road  
Claredon Dock  
Belfast  
BT1 3BG

#### **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 utilises the banking arrangements of the PSNI.

#### **Employers**

##### *Principal Employer*

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

### Changes to the Schemes

The New Police Pension Scheme was introduced on 6 April 2006. In addition, pensions were increased by 2.7% with effect from 10 April 2006. There have been no other significant changes to either Scheme during the year.

### Membership statistics

Details of the current membership of the Closed Police Pension Scheme are as follows

#### Active members

|                         |              |
|-------------------------|--------------|
| At 1 April 2006         | 8,558        |
| New entrants            | 55           |
| Retirements in the year | (557)        |
| Deaths                  | (5)          |
| Other leavers           | (131)        |
| At 31 March 2007        | <b>7,920</b> |

#### Deferred members

|  |            |
|--|------------|
| At 1 April 2006                                  | 742        |
| Members leaving who have deferred pension rights | 125        |
| Members taking up deferred pension rights        | (3)        |
| At 31 March 2007                                 | <b>864</b> |

#### Pensioners in payment

|   | Members      | Dependants   | Total         |
|---|--------------|--------------|---------------|
| At 1 April 2006                                   | 8,679        | 1,412        | 10,091        |
| Members retiring in year at normal retirement age | 20           | 0            | 20            |
| Other retirements                                 | 758          | 0            | 758           |
| New dependants                                    | 0            | 88           | 88            |
| Cessations  | (295)        | (71)         | (366)         |
| At 31 March 2007                                  | <b>9,162</b> | <b>1,429</b> | <b>10,591</b> |

#### Compensation payments

|  | Members    | Dependants | Total      |
|--|------------|------------|------------|
| At 1 April 2006  | 212        | 0          | 212        |
| Members leaving under early retirement                 | 48         | 0          | 48         |
| Members reaching normal retirement age during the year | (52)       | 0          | (52)       |
| At 31 March 2007                                       | <b>208</b> | <b>0</b>   | <b>208</b> |

Details of the current membership of the New Police Pension Scheme are as follows

#### Active members

|                         |            |
|-------------------------|------------|
| At 6 April 2006         | 0          |
| New entrants            | 361        |
| Retirements in the year | 0          |
| Deaths                  | 0          |
| Other leavers           | (3)        |
| At 31 March 2007        | <b>358</b> |

There are no deferred members or pensions in payment as at 31 March 2007.

### **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.

£70,000 of contributions have been made by members of PSNI to the scheme during the year (see note 18).

### **Going concern**

The Combined Balance Sheet (which includes liabilities belonging to both the closed and the new pension schemes) at 31 March 2007 shows net liabilities of £5,129.57m. 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 2007-2008 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 accounts.

### **Future developments**

Following the introduction of the New Police Pension Scheme from 6 April 2006, this will be the only Scheme available to all future police officer recruits.

### **Post balance sheet events**

On the 21 September 2007 a decision was made on the future of the remaining 680 Full Time Reserves officers. It has been decided to reduce the number of officers by 299 over a period of around 12 months from 1 April 2008. The remaining 381 officers are expected to leave by March 2011, when the Severance Scheme will end. The financial impact of this decision on the Police Pension Scheme will take time for the Government Actuary's Department to assess and will be reflected in next year's Accounts.

The Annual Report and Accounts were authorised to be issued and laid in the Houses of Parliament on 8 October 2007. There are no other post balance sheet events to be noted.

### **Audit services**

The National Audit Office is responsible for the audit of the Police Pension Accounts. Audit services are paid by the Police Service of Northern Ireland and therefore payments details are included in their Annual Financial Statements. The fees for this year are £16,500 (2005-2006: £16,000).

So far as the Chief Constable is aware, there is no relevant audit information of which the Comptroller and Auditor General is unaware. The Chief Constable has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Comptroller and Auditor General is aware of that information.

### **Further information**

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



# Report of the Actuary

## a Liabilities

The capitalised value as at 31 March 2007 of expected future benefit payments under each of the Police Pension Schemes, for benefits accrued in respect of employment (or former employment) prior to 31 March 2007, 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<br>Closed Scheme | £ million<br>New Scheme |
|---------------------------------------|----------------------------|-------------------------|
| Actives (past service)                | (2,740.03)                 | (2.57)                  |
| Deferred Pensioners                   | (131.12)                   | 0                       |
| Current Pensioners (excluding injury) | (2,255.85)                 | 0                       |
| <b>Total</b>                          | <b>(5,127.00)</b>          | <b>(2.57)</b>           |

## b Accruing costs

The cost of benefits accruing for each year is met partly by contributions by members, with the employer meeting the balance of the cost. The cost of benefits accruing in the year 2006-2007 has been assessed as follows

|                                   | % of pensionable pay |            |
|-----------------------------------|----------------------|------------|
|                                   | Closed Scheme        | New Scheme |
| Members contributions             | 11.0%                | 9.5%       |
| Employer's share of standard cost | 35.1%                | 28.0%      |

In relation to the pensionable payroll for the financial year, the Current Service Cost is as follows

|  | £ million<br>Closed Scheme | £ million<br>New Scheme |
|--|----------------------------|-------------------------|
| Current Service Cost (net of employee contributions) | 91.96                      | 1.11                    |
| Cost covered by employees contributions              | 28.88                      | 0.38                    |

## 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 Financial Reporting Manual (FRM) issued by HM Treasury. The main financial assumptions are set in accordance with the FRM. The assumptions proposed by the Government Actuary's Department and agreed with the PSNI in nominal terms are

- A rate of earnings increase of 4.3% pa excluding promotional and performance increments;
- A long term nominal discount rate of 4.6% pa; and
- A rate of long-term inflation and pensions increases of 2.75% pa.

The PSNI's workforce is too small to provide sufficient data from which to draw statistically reliable conclusions for all of the assumptions which are to be made. The PSNI has confirmed that demographic assumptions should be derived from aggregate experience across all authorities with officers in the Police Pension Schemes supplemented as necessary by appropriate standard tables. We are not aware of any reason why the PSNI's demographic experience over the long term should be significantly different from the aggregate experience assumed in our assessment.

**e Notes**

- 1 We understand that some benefits payable under the PSNI Severance Schemes will be accounted for outside the PSNI Police Pension Accounts. PSNI have instructed us as to which benefits should be included in these statements.
- 2 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 December 2006, together with summary data as at 31 March 2007.

*Andrew Johnston*  
Government Actuary's Department  
London

3 May 2007

## Statement of Accounting Officers responsibilities

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 Schemes 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 the financial statements, the Chief Constable of the PSNI is required to comply with the requirements of the Government Financial Reporting Manual and in particular 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, as set out in the Government Financial Reporting Manual 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 has appointed the Chief Constable of the Police Service of Northern Ireland as Accounting Officer for the Police Pension Accounts. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the pension schemes, 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

## 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. My responsibilities as Chief Constable and Accounting Officer are set out in the Police (Northern Ireland) 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 2007 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, the Corporate Risk Manager continues to provide training, support and guidance to staff throughout the organisation to ensure that staff are equipped to manage risk.

## The risk and control framework

A Risk Policy Framework document is available to the organisation explaining the underlying approach to risk management and documenting 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 2006-2007. The basic methodology for assessing both the likelihood and impact of risk is now firmly embedded within the organisation but continues to be refined to make it more objective.

A Corporate Risk Register has been in place to highlight the most significant strategic risks facing the organisation for 2006-2007. The Register has been revised and updated to take account of the new priorities for 2007-2008. In addition to the formal quarterly review of the Corporate Risk Register, Chief Officers also consider the Corporate Risk Register on a regular basis at the Chief Constable's Forum. The key risk priorities facing the organisation during 2006-2007 were in the generic areas of funding, procurement, human resourcing, change management and operational policing issues.

Stewardship reporting is a key element of ensuring accountability and ownership of risks and their management within the organisation. All Chief Officers and Senior Managers 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, which is chaired by a Non-Executive Member, 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.

Significant progress has been made in the overall governance arrangements within the organisation and work is currently underway to further improve the operation and reporting arrangements of the governance Committees. In particular, the organisation is continuing to work on developing a systematic process for coordinating assurance and third party reporting. A programme of work has been progressed which is focussed on eliminating duplication of effort from external recommendations by formally capturing, tracking and discharging recommendations from third parties.

Risk management has been 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 within the organisation. The risk and control framework has been the subject of two reviews during 2006-2007. One by Internal Audit, concentrating on risk management at the Corporate level, and one by the Corporate Risk Manager looking at ways of improving risk management across the organisation as a whole. The latter review involved a benchmarking exercise of PSNI Risk Management practices against other UK Police Services and PSNI came out very favourably from the review. The combined results of these reviews has demonstrated the need for further training for key personnel and further development of the Risk Management IT system. Significant progress has already been made in these areas and there is a programme of work in place to continue development throughout 2007-2008.

### 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 and Risk 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, governance and risk.

During the year Deloitte & Touche LLP 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 organisations system of internal control.

*Sir Hugh Orde*  
Chief Constable  
Police Service of Northern Ireland

1 October 2007

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

I certify that I have audited the financial statements of the Police Service for Northern Ireland Pension Accounts for the year ended 31 March 2007 under the Police (Northern Ireland) Act 2000 as amended by the Police (Northern Ireland) Act 2003. These comprise the Combined Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and Statement of Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

The Chief Constable is responsible for preparing the Report of the Managers and 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. These responsibilities are set out in the Statement of Accounting Officer's responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and 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. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if Police Service for Northern Ireland has not kept proper accounting records and if I have not received all the information and explanations I require for my audit.

I review whether the Statement on Internal Control reflects the Police Service for Northern Ireland's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of Police Service for Northern Ireland's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Police Pension Accounts, which consists of the report of the managers, and the report of the Actuary, and consider whether it is consistent with the audited financial statements.

I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

### Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Chief Constable in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Police Service for Northern Ireland Pension 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 fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinions

### **Audit opinion**

In my opinion

- the financial statements give a true and fair view, 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, of the state of the Police Service for Northern Ireland Pension Scheme's affairs as at 31 March 2007 and of its net outgoings, recognised gains and losses and cashflows for the year then ended; and
- the financial statements 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.

### **Audit opinion on regularity**

In my opinion, 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.

### **Report**

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

12 October 2007

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

## Combined Revenue Account for the year ended 31 March 2007

|  | Notes | Year ended<br>31 March<br>2007<br>£ | Year ended<br>31 March<br>2006<br>Restated<br>£ |
|--|-------|-------------------------------------|---|
| <b>Income</b>                          |       |                                     |   |
| Contributions receivable               | 3     | <b>83,127</b>                       | 82,883  |
| Transfers in                           | 4     | <b>1,670</b>                        | 2,280   |
| Total                                  |       | <b>84,797</b>                       | 85,163  |
| <b>Outgoings</b>                       |       |                                     |   |
| Current service costs                  | 5     | <b>(122,330)</b>                    | (121,401)                                       |
| Past service costs                     | 6     | <b>0</b>                            | (9,250)   |
| Curtailments and settlements           | 7     | <b>(9,360)</b>                      | 0   |
| Transfers in                           | 4     | <b>(1,670)</b>                      | (2,280)   |
| Interest on scheme liabilities         | 8     | <b>(214,050)</b>                    | (212,280)                                       |
| Total                                  |       | <b>(347,410)</b>                    | (345,211)                                       |
| Removal of provision for injury awards | 9     | <b>187,000</b>                      | 0   |
| <b>Net outgoings for the year</b>      |       | <b>(75,613)</b>                     | (260,048)                                       |

*The notes on pages 81 to 89 form part of these accounts*

\* Format and figures restated to reflect change in accounting policy detailed in note 2.1.

## Combined statement of total recognised gains and losses for the year ended 31 March 2007

|                                | Note | Year ended<br>31 March<br>2007<br>£ | Year ended<br>31 March<br>2006<br>Restated<br>£ |
|--------------------------------|------|-------------------------------------|---|
| Net outgoings for the year     |      | <b>(75,613)</b>                     | (260,048)                                       |
| Actuarial loss                 | 13.4 | <b>(948,630)</b>                    | (477,150)                                       |
| Recognised losses for the year |      | <b>(1,024,243)</b>                  | (737,198)                                       |

*The notes on pages 81 to 89 form part of these accounts*

\* Format and figures restated to reflect change in accounting policy detailed in note 2.1.



## Combined Balance Sheet as at 31 March 2007

|  | Notes | <b>Year ended<br/>31 March<br/>2007</b> | Year ended<br>31 March<br>2006<br>Restated* |
|--|-------|---|---|
|  |       | £                                       | £   |
| <b>Current assets</b>                                    |       |   |   |
| Debtors  | 11    | <b>4,347</b>                            | 3,293                                       |
| <b>Creditors due within one year</b>                     |       |   |   |
| Creditors  | 12    | <b>(4,347)</b>                          | (3,293)                                     |
| <b>Net current assets, excluding pension liabilities</b> |       | <b>0</b>                                | 0   |
| <b>Provisions for pension liabilities</b>                |       |   |   |
| Closed Scheme  | 13.1  | <b>(5,127,000)</b>                      | (4,156,900)                                 |
| New Scheme   | 13.2  | <b>(2,570)</b>                          | 0   |
| <b>Net liabilities, including pension liabilities</b>    |       | <b>(5,129,570)</b>                      | (4,156,900)                                 |
| <b>Financed by</b>                                       |       |   |   |
| Opening balance  |       | <b>(4,156,900)</b>                      | (3,472,079)                                 |
| Grant In Aid   | 14    | <b>51,573</b>                           | 52,377                                      |
| Net outgoings for the year                               |       | <b>(75,613)</b>                         | (260,048)                                   |
| Actuarial losses   | 13.4  | <b>(948,630)</b>                        | (477,150)                                   |
| <b>Closing balance</b>                                   |       | <b>(5,129,570)</b>                      | (4,156,900)                                 |

*The notes on pages 81 to 89 form part of these accounts*

\* Format and figures restated to reflect change in accounting policy detailed in note 2.1.

Sir Hugh Orde  
Chief Constable  
Police Service of Northern Ireland

1 October 2007

## Combined Cash Flow Statement for the year ended 31 March 2007

|  | Notes   | Year ended<br>31 March<br>2007<br>£ | Year ended<br>31 March<br>2006<br>Restated*<br>£ |
|--|---------|-------------------------------------|--|
| <b>Reconciliation of net outgoings to operating cash flows</b> |         |                                     |  |
| Net outgoings for the year                                     |         | <b>(75,613)</b>                     | (260,048)  |
| Adjustments for movements in working capital                   |         | <b>0</b>                            | 1  |
| Increase in pension provision                                  |         |                                     |  |
| Closed Scheme  | 13.1    | <b>334,840</b>                      | 342,931  |
| New Scheme   | 13.2    | <b>1,540</b>                        | 0  |
| Increase in pension provision – enhancements and transfers in  |         |                                     |  |
| Closed Scheme  | 13.1    | <b>10,820</b>                       | 2,280  |
| New Scheme   | 13.2    | <b>210</b>                          | 0  |
| Removal of Provision for Injury Awards                         | 9, 13.1 | <b>(187,000)</b>                    | 0  |
| Use of provision   |         |                                     |  |
| Closed Scheme  | 13.1    | <b>(136,370)</b>                    | (137,541)  |
| New Scheme   | 13.2    | <b>0</b>                            | 0  |
| <b>Net cash outflow from operating activities</b>              |         | <b>(51,573)</b>                     | (52,377)   |
| <b>Financing</b>   |         | <b>51,573</b>                       | 52,377   |
| <b>Increase/(decrease) in cash in the period</b>               |         | <b>0</b>                            | 0  |

*The notes on pages 81 to 89 form part of these accounts*

\* Format and figures restated to reflect change in accounting policy detailed in note 2.1.

# Notes to the Accounts

## 1 Basis of preparation of the pension accounts

This year, the PSNI Pension Accounts have been prepared in accordance with the relevant provisions of the 2006-2007 Government Financial Reporting Manual (FRM) issued by the Treasury, which reflects the requirements of Financial Reporting Standard (FRS) 17 *Retirement Benefits*. These accounts show the unfunded pension liabilities and movements in those liabilities during the year. The accounts also have regard to the recommendations of the Statement of Recommended Practice (SORP) *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 Accounts summarise the transactions of both the Closed Police Pension Scheme and the New Police Pension Scheme. The combined balance sheet shows the deficits on each scheme; the combined revenue account shows the total of the movements from each scheme liability analysed between the pension cost, enhancements and transfers in, and the interest on the scheme liability. The actuarial position of each pension scheme is dealt with in the Report of the Actuary, and the pension accounts should be read in conjunction with that report.

## 2 Accounting policies

### 2.1 Change of accounting policy

With effect from the 2006-2007 reporting period, the FRM requires the Police Pension Accounts to account for grants and grants-in-aid received for revenue purposes as financing because they are regarded as contributions from a controlling party. This is a change in accounting policy from earlier periods when such items were recorded as income. The effect of this change on the audited 2005-2006 accounts and the impact of the change in the results of the current year is shown below. Note there is no impact on the net liability position of the Police Pension Accounts as a result of this change in policy.

|                                   | At 31 March 2006<br>(as stated previously)                   | Impact of adopting<br>new policy | At 31 March 2006<br>(restated)                   |
|-----------------------------------|--|----------------------------------|--|
| Net outgoings for the year        | (207,671)  | (52,377)                         | (260,048)  |
|                                   | At 31 March 2007<br>(without applying the<br>the new policy) | Impact of adopting<br>new policy | At 31 March 2007<br>(applying the new<br>policy) |
| <b>Net outgoings for the year</b> | <b>(24,040)</b>  | <b>(51,573)</b>                  | <b>(75,613)</b>                                  |

### 2.2 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.

### 2.3 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.

#### 2.4 *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.

#### 2.5 *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 real discount rate of 1.8% real.

#### 2.6 *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 increase in benefit vest.

#### 2.7 *Curtailments*

Curtailments are events that reduce the expected years of future service of present employees or reduce for a number of employees the accrual of defined benefits for some or all of their future service.

Losses arising on curtailments not allowed for in the actuarial assumptions are measured and reflected in the Revenue Account.

#### 2.8 *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 real discount rate of 1.8%.

#### 2.9 *Other payments*

Other payments are accounted for on an accruals basis.

#### 2.10 *Scheme liabilities*

Provision is made for liabilities to pay pensions and other benefits on the future. The scheme liability is measured on an actuarial basis using the projected unit method and is discounted at a real rate of 1.8%.

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.

#### 2.11 *Pension benefits payable*

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

#### 2.12 *Pension payments to those retiring at their normal retirement age*

Where a retiring member of either 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 either 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.

#### 2.13 Pension payments to and on account of leavers before their normal retirement age

Where a member of either 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 either 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.

#### 2.14 Injury benefits

Injury benefits are now accounted for in the main PSNI Financial Statements.

#### 2.15 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.

#### 2.16 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 Recognised Gains and Losses for the year.

#### 2.17 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

|                                 | Notes | Year ended<br>31 March<br>2007 | Year ended<br>31 March<br>2006 |
|---------------------------------|-------|--------------------------------|--------------------------------|
| <b>Employers' contributions</b> |       |                                |                                |
| Closed Scheme                   |       | <b>53,051</b>                  | 53,723                         |
| New Scheme                      |       | <b>816</b>                     | 0                              |
| <b>Employees' contributions</b> |       |                                |                                |
| Closed Scheme                   |       | <b>28,882</b>                  | 29,160                         |
| New Scheme                      |       | <b>378</b>                     | 0                              |
|                                 |       | <b>83,127</b>                  | 82,883                         |

### 4 Transfers in

|               |      | £000         | £000  |
|---------------|------|--------------|-------|
| Closed Scheme | 13.1 | <b>1,460</b> | 2,280 |
| New Scheme    | 13.2 | <b>210</b>   | 0     |
|               |      | <b>1,670</b> | 2,280 |

|   | Notes | Year ended<br>31 March<br>2007<br>£000 | Year ended<br>31 March<br>2006<br>£000 |
|---|-------|--|--|
| <b>5 Current service costs</b>          |       |  |  |
| Closed Scheme                           | 13.1  | <b>120,840</b>                         | 121,401                                |
| New Scheme                              | 13.2  | <b>1,490</b>                           | 0                                      |
|   |       | <b>122,330</b>                         | 121,401                                |
| <b>6 Past service costs</b>             |       |  |  |
| Closed Scheme                           | 13.1  | <b>0</b>                               | 9,250                                  |
| New Scheme                              |       | <b>0</b>                               | 0                                      |
|   |       | <b>0</b>                               | 9,250                                  |
| <b>7 Curtailments and settlements</b>   |       |  |  |
| Closed Scheme – Curtailments            | 13.1  | <b>9,360</b>                           | 0                                      |
| New Scheme – Curtailments               |       | <b>0</b>                               | 0                                      |
|   |       | <b>9,360</b>                           | 0                                      |
| <b>8 Interest on scheme liabilities</b> |       |  |  |
| Interest charge for the year            |       |  |  |
| Closed Scheme                           | 13.1  | <b>214,000</b>                         | 212,280                                |
| New Scheme                              | 13.2  | <b>50</b>                              | 0                                      |
|   |       | <b>214,050</b>                         | 212,280                                |

**9 Removal of provision for injury awards**

Following a change to the tax regime, from April 2006 injury awards are no longer permitted to be part of pension schemes and the relevant costs are now recognised in the PSNI's main financial statements. The pension liability relating to injury awards was valued at £187m as at 31 March 2006 by the Government Actuary's Department.

**10 Administration fees and expenses**

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

**11 Debtors**

|  | Year ended<br>31 March<br>2007<br>£000 | Year ended<br>31 March<br>2006<br>£000 |
|--|--|--|
| <i>11a Analysis by type</i>            |  |  |
| Pension contribution due from employer | <b>3,900</b>                           | 2,912                                  |
| Pension overpayments                   | <b>299</b>                             | 308                                    |
| Provision for doubtful debts           | <b>(95)</b>                            | 0                                      |
| Amounts due from PSNI main accounts    | <b>239</b>                             | 70                                     |
| Other debtors                          | <b>4</b>                               | 3                                      |
|  | <b>4,347</b>                           | 3,293                                  |

*11b Intra-government balances*

|   | <b>Amounts falling due within one year</b> |       |
|---|--|-------|
|   | <b>£000</b>                                | £000  |
| Balances with other central government bodies | <b>4,139</b>                               | 2,982 |
| Balances with bodies external to government   | <b>208</b>                                 | 311   |
| At 31 March                                   | <b>4,347</b>                               | 3,293 |

**12 Creditors due within one year***12a Analysis by type*

|                                  | <b>Year ended<br/>31 March<br/>2007<br/>£000</b> | Year ended<br>31 March<br>2006<br>£000 |
|----------------------------------|--|--|
| Amount due to PSNI main accounts | <b>4,108</b>                                     | 3,223                                  |
| HM Revenue & Customs             | <b>239</b>                                       | 70                                     |
|                                  | <b>4,347</b>                                     | 3,293                                  |

*12b Intra-government balances*

|   | <b>Amounts falling due within one year</b> |       |
|---|--|-------|
|   | <b>£000</b>                                | £000  |
| Balances with other central government bodies | <b>4,347</b>                               | 3,293 |
| At 31 March                                   | <b>4,347</b>                               | 3,293 |

**13 Provision for pension liabilities**

Both the PSNI Police Pension Schemes are unfunded defined benefit schemes. A full actuarial valuation of each scheme was carried out as at 31 March 2007 by the Government Actuary's Department. The major assumptions used by the Actuary were

|   | <b>At 31 March<br/>2007</b> | At 31 March<br>2006 | At 31 March<br>2005 |
|---|-----------------------------|---------------------|---------------------|
| Rate of inflation                       | <b>2.75%</b>                | 2.5%                | 2.5%                |
| Rate of increase in salaries            | <b>4.3%</b>                 | 4.0%                | 4.0%                |
| Rate of increase in pensions            | <b>2.75%</b>                | 2.5%                | 2.5%                |
| Rate for discounting scheme liabilities | <b>4.6%</b>                 | 5.4%                | 6.1%                |

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 each 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 each scheme 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.

### 13.1 Analysis of movement in the closed pension scheme liability

|                                       | Year ended<br>31 March 2007<br>£000 | Year ended<br>31 March 2006<br>£000 |
|---------------------------------------|-------------------------------------|-------------------------------------|
| <b>Scheme liability at 1 April</b>    | <b>(4,156,900)</b>                  | (3,472,080)                         |
| Current service cost                  | <b>(120,840)</b>                    | (121,401)                           |
| Past service cost                     | <b>0</b>                            | (9,250)                             |
| Interest on pension scheme liability  | <b>(214,000)</b> <b>(334,840)</b>   | (212,280) (342,931)                 |
| Curtailments and Settlements          | <b>(9,360)</b>                      | 0                                   |
| Transfers in                          | <b>(1,460)</b> <b>(10,820)</b>      | (2,280) (2,280)                     |
| Removal of Injury Awards (see note 9) | <b>187,000</b>                      | -                                   |
| Pension payments (see note 13.3)      | <b>136,370</b>                      | 137,541                             |
| Actuarial Loss (see note 13.4)        | <b>(947,810)</b>                    | (477,150)                           |
| <b>Scheme liability at 31 March</b>   | <b>(5,127,000)</b>                  | (4,156,900)                         |

During the year ended 31 March 2007, employee contributions represented an average of 11% of pensionable pay. Employer contributions represented an average of 20.25% of pensionable pay.

### 13.2 Analysis of Movement in the New Pension Scheme Liability

|                                      | Year ended<br>31 March 2007<br>£000 |
|--------------------------------------|-------------------------------------|
| <b>Scheme liability at 1 April</b>   | <b>0</b>                            |
| Current service cost                 | (1,490)                             |
| Interest on pension scheme liability | (50) <b>(1,540)</b>                 |
| Transfers in                         | <b>(210)</b>                        |
| Pension payments (see note 13.3)     | <b>0</b>                            |
| Actuarial Loss (see note 13.4)       | <b>(820)</b>                        |
| <b>Scheme liability at 31 March</b>  | <b>(2,570)</b>                      |

During the year ended 31 March 2007, employee contributions represented an average of 9.5% of pensionable pay. Employer contributions represented an average of 20.25% of pensionable pay.



## 13.3 Analysis of pension payments

|  | <b>Year ended<br/>31 March<br/>2007<br/>£000</b> | Year ended<br>31 March<br>2006<br>£000 |
|--|--|--|
| <b>Pension payments</b>                      |  |  |
| Closed Scheme                                | <b>100,010</b>                                   | 102,471                                |
| New Scheme                                   | <b>0</b>   | 0                                      |
| <b>Gratuities/commutations</b>               |  |  |
| Closed Scheme                                | <b>35,780</b>                                    | 34,720                                 |
| New Scheme                                   | <b>0</b>   | 0                                      |
| <b>Payments to and on account of leavers</b> |  |  |
| Closed Scheme                                | <b>580</b>                                       | 350                                    |
| New Scheme                                   | <b>0</b>   | 0                                      |
|  | <b>136,370</b>                                   | 137,541                                |

Due to this being the first year of the New Police Pension Scheme no pension payments have been made during the year.

## 13.4 Analysis of actuarial loss

|   | Note | <b>Year ended<br/>31 March<br/>2007<br/>£000</b> | Year ended<br>31 March<br>2006<br>£000 |
|---|------|--|--|
| <b>Experience gains and losses arising on pension liabilities</b>                     |      |  |  |
| Closed Scheme   |      | <b>(15,240)</b>                                  | (6,350)                                |
| New Scheme  |      | <b>(30)</b>                                      | 0                                      |
| <b>Changes in assumptions underlying the present value of the pension liabilities</b> |      |  |  |
| Closed Scheme   |      | <b>(932,570)</b>                                 | (9,440)                                |
| New Scheme  |      | <b>(790)</b>                                     | 0                                      |
| Adjustments to pension liabilities  | 13.5 | <b>0</b>   | (461,360)                              |
| Total actuarial loss  |      | <b>(948,630)</b>                                 | (477,150)                              |

## 13.5 Adjustments to pension liabilities

**Transition to the Government Financial Reporting Manual (FReM)**

As at 31 March 2005, the pension liability was valued in accordance with the SORP. However, PSNI has been directed to apply the requirements of the new Government FReM for the financial year 2005-2006. As compliance with the FReM involves a change in the discount rate applied, the pension liability as at 31 March 2005 has been restated from £4,221.91m to £3,472.08m, a reduction of some £749.83m in the SORP valuation. This reflects the application of a higher discount rate under FReM.

**Change in real rate of return**

HM Treasury have advised that the real rate of return in excess of price inflation for discounting pension scheme liabilities should change from 3.5% on 31 March 2005 to 2.8% on 1 April 2005. This change results in an overnight increase in the liability of £461.36m. Similar increases will be reported in all public service pension schemes reporting under FReM.

**14 Grant-In-Aid**

|   | <b>Year ended<br/>31 March<br/>2007<br/>£000</b> | Year ended<br>31 March<br>2006<br>£000 |
|---|--|--|
| Grant-in-Aid from the Northern Ireland Office | <b>51,573</b>                                    | <u>52,377</u>                          |

**15 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 Account 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 Schemes, key managerial staff or other related parties has undertaken any material transactions with either Scheme during the year.

**16 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 Accounts are 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 Accounts rely 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.

**17 Losses and special payments**

During the year, there were seven recorded losses or special payments totalling £7,578 (2005-2006: nil).

**18 Additional voluntary contributions**

The Closed Police Pension Scheme provides for officers to make additional voluntary contributions (AVCs) 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 AVCs 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

|  | <b>Year ended<br/>31 March<br/>2007<br/>£000</b> | Year ended<br>31 March<br>2006<br>£000 |
|--|--|--|
| Movements in the year                              |  |  |
| <b>Balance at 1 April</b>                          | <b>1,013</b>                                     | 836                                    |
| New Investments                                    | <b>70</b>  | 85                                     |
| Sale of investments to provide<br>pension benefits | <b>(50)</b>                                      | (27)                                   |
| Changes in market value of investments             | <b>69</b>  | 119                                    |
|  | <hr/>  | <hr/>                                  |
| <b>Balance at 31 March</b>                         | <b>1,102</b>                                     | 1,013                                  |
| Contributions received to provide<br>life cover    | <b>0</b>   | 0                                      |
| Benefits paid on death                             | <b>0</b>   | 0                                      |
|  | <hr/>  | <hr/>                                  |
|  | <b>0</b>   | 0                                      |

There is no in-house AVC Scheme available to members of the New Police Pension Scheme introduced from 6 April 2006.

For further information about the National Audit Office please contact:

National Audit Office  
Press Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP  
Tel: 020 7798 7400  
Email: [enquiries@nao.gsi.gov.uk](mailto:enquiries@nao.gsi.gov.uk)

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