

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 2005-2006

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 16 JANUARY 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* (Previously ACC for Rural Region. Replaced Sam Kinkaid who retired in February 2006.)  
Assistant Chief Constable Crime Operations

*Roy Toner*  
Assistant Chief Constable Operational Support

*Drew Harris* (Appointed in March 2006 to replace Judith Gillespie who is now responsible for Rural Region.)  
Assistant Chief Constable Criminal Justice

*Duncan McCausland*  
Assistant Chief Constable Urban Region

*Judith Gillespie* (Previously ACC Criminal Justice. Replaced Peter Sheridan in February 2006, who is now responsible for Crime Operations.)  
Assistant Chief Constable Rural Region

*David Best*  
Director of Finance & Support Services

*Joe Stewart*  
Director of Human Resources

Further details are provided in the Remuneration Report section on page 10.

## 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 9 and 10 to the Financial Statements. There are no significant differences between the market values and book values of land and buildings.

## Research and development

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

## 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

Following a change to the tax regime, from the 6 April 2006 injury awards are no longer permitted to be part of pension schemes and the relevant costs will therefore be included in these financial statements from this date. The pension liability relating to injury awards was valued at £187m as at 31 March 2006.

## Future developments

The Northern Ireland Policing Board, in conjunction with the PSNI, published a Policing Plan covering the period 2006 to 2009 in March this year. This Policing Plan, along with the plans produced by local District Command Units (DCUs), contains a framework of key objectives and targets for policing over the next planning period. The Plan has been developed in consultation with the community, and for the community.

Through this Plan, PSNI have identified clear areas for improving performance in the future.

It is important for the PSNI to have the confidence of the people it serves. Confidence building measures are therefore vital to the success of the Service and are a key element in the Plan.

PSNI will continue to strive to reduce crime. While it is planned to target those areas which worry people most – domestic burglaries, vehicle crimes and violent crimes – there will also be a particular focus on reducing violent crimes against children.

Equally, there should be no place in society for what has become known as 'hate crimes'. The PSNI have a growing responsibility in preventing and detecting these crimes. The public also have a responsibility to help achieve this.

Reassurance is a key element of our work. One of the targets, which is well on the way to being achieved, is to have 72% of officers available for frontline duties by 2007-2008.

Other challenges ahead include the need to continue the programme of change. In policing there are constant changes – new ways of doing things, improved equipment, new technology, best use of buildings as well as the skills of officers and civilians. In addition, the Service will respond to the challenges arising from the Review of Public Administration and the process of Normalisation. The PSNI has delivered on the change agenda set out in Patten and will continue to change as the Service is modernised.

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.

### 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. PSNI paid 96.8% of all invoices within 30 days of the date on which they were 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). (See further details in the Remuneration Report section on page 10 and Note 4 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 £66,000 (2004-2005: £65,000). This includes the audit fees in respect of the Police Pension Scheme, 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 certified copy of these Annual Financial Statements will be included on the PSNI's website ([www.psni.police.uk](http://www.psni.police.uk)) as an addendum to the Chief Constable's Annual Report 2005-2006, which was published in June 2006.

### Police Fund, Police Property Fund and Police Pension Scheme

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

## 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; and
- 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) 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 community.

The purpose of the PSNI is to make Northern Ireland safer for everyone through professional, progressive policing. The PSNI's vision is of a service everyone can be proud of because it delivers policing at its best. PSNI plans to deliver this vision while adhering 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 towards the ends of effective and efficient policing, and for holding the police to account, through the Chief Constable, for delivery of those ends.

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 Board's website [www.nipolicingboard.org.uk](http://www.nipolicingboard.org.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 2005-2006 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 2005-2006, 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 vast majority of the targets in the 2005-2006 annual Policing Plan. For the few targets that were not achieved, PSNI will work alongside the Board and others to realise improvements in performance.

Overall, the 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.

However, the 2005-2006 crime statistics showed a 4.3% rise in overall crime. Any increase in crime is always a major concern and the PSNI is firmly committed to making the increased crimes a key priority for the year ahead. Overall crime rates, despite the rise are still 14% lower than they were in 2002-2003 and in a number of categories crime has gone down.

In the year ahead, PSNI plan to tackle those areas which worry people most, including road policing, violent crime, hate crime, organised crime, child protection, domestic burglary, vehicle crime and anti-social behaviour. More detail is available in the annual Policing Plan 2006-2009.

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 2005-2006 were in the generic areas of funding, procurement, human resourcing and operational policing issues.

## Review of financial position and resources

### Results for the year

The Income and Expenditure Account is set out on page 21 and shows a surplus for the year of £94,277,000 including £4,288,000 for an exceptional item in respect of the transfer of civilian direct recruit pension liabilities (see notes 7 and 14). The surplus for the year is largely due to £84,683,000 grant income received to discharge this liability in full, which was provided for in previous years.

An amount of £107,572,000 was transferred to reserves after crediting £13,295,000 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 2005-2006, the available total revenue funding for 2005-2006 was £863.5m, comprising of £725.9m for the main police grant revenue and £137.6m for pensions (accounted for separately). Total cash expenditure during 2005-2006 was £857.8m (£720.2m for the police grant and £137.6m for pensions), resulting in a budget surplus of £5.7m, 0.6% of the available grant. Actual capital expenditure was also within available funding.

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

Reported Patten Voluntary Severance expenditure against budget was £28.1m. Full Time Reserve Compulsory Severance expenditure was £27.7m, while Patten Non Severance expenditure was £26.3m. This money was used to implement the programme of change in the following areas: external recruitment of police and civilian 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 2005-2006.

## **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 recognise the pervasive influence of environmental factors and the impact of the government environmental agenda. The organisation has considered which of its activities most affects the environment and is seeking to reduce this impact.

For example, we have specific targets to reduce the transport fleet size from over 2,700 operational vehicles by 200 vehicles before March 2007, improve utilisation and convert to more efficient diesel engines.

Similarly, Estate Services are developing an Environmental Sustainability policy in relation to the development and maintenance of the PSNI estate. This will focus on achieving Government targets in relation to annual reductions in energy consumption (weather corrected), reduction in carbon dioxide emissions, and utilisation of renewable energy sources.

A range of utilities reduction measures have been implemented since 1999 resulting in energy cost savings of £771,000 for the 2005-2006 financial year against the base year of 1998-1999 allowing for corrections for unit cost increases and occupancy levels.

A good example is the new build DCU Headquarters at Omagh which will use ground water as a renewable source for the cooling of the building and a range of measures have been implemented to achieve Government targets in relation to CO<sub>2</sub> emission from this development.

Further initiatives are being explored between PSNI and the Carbon Trust Agency to ensure that we continue to be pro-active in implementing initiatives relating to the environment and sustainability.

## **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 has a record of supporting local charities and helping communities. The organisation actively encourages its employees to give something back to their local community. In 2005-2006, PSNI received an award for the level of payroll giving by its employees. Other examples of the PSNI's contribution to the community it serves are given in the Chief Constable's Annual Report 2005-2006.

**Going concern**

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

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

27 October 2006

# Remuneration Report

## Remuneration policy

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

In reaching its recommendations, the NIPB 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 (PNB) pay scales for Chief Officers.

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

## Service contracts

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

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

The Chief Constable was appointed by the NIPB from 1 September 2002 on a five year fixed term contract.

The Deputy Chief Constable was appointed by the NIPB 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 5 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. The appointment may be extended by agreement for a period or periods up to the time when the person appointed has completed 30 years pensionable service, for the purposes of the Pensions Regulations, or has completed 25 years pensionable service for those purposes and has attained the age of 50.

Should the NIPB 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 NIPB 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 force.

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

### **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, 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 Home 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 2006 is provided for Chief Officers of the PSNI as follows

	<b>Salary 2005-2006 £'000s</b>	Salary 2004-2005 £'000s
<i>Sir Hugh Orde</i> Chief Constable	<b>175-180</b>	160-165
<i>Paul Leighton</i> Deputy Chief Constable	<b>145-150</b>	140-145
<i>Peter Sheridan</i> Assistant Chief Constable Crime Operations (Previously ACC for Rural Region. Replaced Sam Kinkaid who retired on 27 February 2006)	<b>105-110</b>	100-105
<i>Sam Kinkaid</i> <sup>2</sup> Assistant Chief Constable Crime (left 27 February 2006)	****	****
<i>Duncan McCausland</i> Assistant Chief Constable Urban	<b>105-110</b>	100-105
<i>Roy Toner</i> Assistant Chief Constable Operational Support	<b>105-110</b>	100-105
<i>Judith Gillespie</i> Assistant Chief Constable Rural Region (Previously ACC Criminal Justice. Replaced Peter Sheridan on 27 February 2006)	<b>95-100</b>	85-90
<i>Drew Harris</i> (Full year equivalent for 2005-2006) Assistant Chief Constable Criminal Justice (Appointed 13 March 2006)	<b>0-5 (90-95)</b>	-
<i>David Best</i> <sup>3,4</sup> Director of Finance & Support Services	<b>100-105</b>	90-95
<i>Joe Stewart</i> <sup>3,4</sup> Director of Human Resources	<b>110-115</b>	105-110

#### Notes

- 1 The table above does not include details of salary to individuals who acted up into post during the year to cover absences due to annual leave.
- 2 Consent to disclose information withheld.
- 3 Following a review of the remuneration of Senior Civilian Staff by the Northern Ireland Policing Board, from 1 September 2005 these posts have been assimilated into new remuneration arrangements broadly equivalent to those applying to Assistant Chief Constables.
- 4 2004-2005 disclosures restated.

'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 2006 or during the year to 31 March 2005.

#### Chief Officer Pension Benefits

	Accrued pension at age 60 as at 31 March 2006 and related lump sum £000's	Real increase in pension and related lump sum at age 60 £000's	CETV at 31 March 2006 £000's	CETV at 31 March 2005 £000's	Real increase in CETV £000's
Sir Hugh Orde <sup>1</sup>	105 – 110	5 – 7.5	1,264	1,194	51
Paul Leighton <sup>1</sup>	70 – 75	2.5 – 5	869	811	43
Peter Sheridan <sup>1</sup>	55 – 60	2.5 – 5	635	591	34
Sam Kinkaid <sup>2</sup>	****	****	****	****	****
Duncan McCausland <sup>1</sup>	35 – 40	2.5 – 5	447	406	31
Roy Toner <sup>1</sup>	45 – 50	2.5 – 5	488	449	30
Judith Gillespie <sup>1</sup>	35 – 40	2.5 – 5	410	366	35
Drew Harris <sup>1</sup>	25 – 30	0 – 2.5	261	257 <sup>3</sup>	4
David Best	30 – 35	0 – 2.5	509	478	20
	plus lump sum of 95 – 100	plus lump sum of 5 – 7.5			
Joe Stewart	10 – 15	0 – 2.5	182	170	11
	plus lump sum of 35 – 40	plus lump sum of 0 – 2.5			

#### 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 Consent to disclose information withheld.
- 3 CETV as at 12 March 2006, in line with disclosure requirements.

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

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

Pension benefits for PSNI Direct Recruits and Civil Servants seconded from DFP are provided through the Principal Civil Service Pension Scheme (NI) (PCSPS (NI)). From 1 October 2002, 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 (civilian) pension scheme*

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

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. Therefore, this scheme was wound up during 2005-2006 and has transferred to the PCSPS(NI).

#### *PSNI pension scheme*

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

27 October 2006

## 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. The responsibilities of an Accounting Officer are set out in the Police Act 2000 and in the HM Treasury memorandum 'Responsibilities of an NDPB Accounting Officer'.

## The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of organisational policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in PSNI for the year ended 31 March 2006 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 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 2005-2006. 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 2005-2006. The Register has been revised and updated to take account of the new priorities for 2006-2007. In addition to the formal quarterly review of the Corporate Risk Register, since November 2005, Chief Officers also agreed to consider the Corporate Risk Register on a regular basis at the Chief Constable's Forum. The key risk priorities facing the organisation during 2005-2006 were in the generic areas of funding, procurement, human resourcing 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 are required to sign a Stewardship Statement on a half yearly basis to confirm that over a period of time, they have reviewed the risk register for their respective areas of responsibility and assessed the management of the risks identified. The signing of the Stewardship Statements helps to provide assurance that all risks are being managed in the organisation.

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

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 working to develop a systematic process for coordinating assurance and third party reporting. The risk and control framework will also continue to develop to reflect a changing environment. Risk management is being incorporated more fully into the corporate planning and decision-making processes of the organisation and will provide increased assurance that significant risks will be identified, evaluated and appropriately controlled within the organisation.

### Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the Internal Auditors and the Chief Officers within the organisation who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Chief Officers and the Audit 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. PSNI has developed a framework to give assurance in the management of risk across the organisation.

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, both criminal and administrative investigations are currently ongoing into Procurement Practice within PSNI. It is anticipated that these investigations will be concluded in the near future. To date, the administrative investigation has evidenced a structured approach to procurement with cognisance taken of the need to tender and be open and transparent, however it has also highlighted weaknesses in the overall procurement framework. The organisation has been proactive in addressing these weaknesses through the introduction of a revised set of procedures supported by an extensive training programme for staff involved in procurement. It has also reviewed and refined its contract with the procurement service provider.

There is continuing concern around the effective management of absences throughout the organisation. Management is actively addressing this issue as a priority.

The provision of a new Police College is considered to be central to the future performance of the PSNI. The planned College has been re-scoped to provide a training centre of excellence that will deliver best practice training programmes comparable to any facility worldwide. After public competition a site was chosen which attained full community support. The funding of the College is still not resolved and the delay has a potentially significant impact on organisational effectiveness.

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

27 October 2006

# 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 2006 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.

## 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 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 also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, 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 pages 17 to 18 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 Chief Constable'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. This other information comprises only the Foreword, the Management Commentary and the unaudited part of the Remuneration Report. 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.

## 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 2006 and of its surplus for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003 and directions made thereunder by the Secretary of State for Northern Ireland; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

23 November 2006

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

## Income and Expenditure Account for the year ended 31 March 2006

		<b>Year ended 31 March 2006 £000</b>	Year ended 31 March 2005 £000
<b>Income</b>			
<i>Grant from Northern Ireland Office</i>			
Request for Resources 1			
Core Grant	2	<b>763,380</b>	662,546
Patten Grant – Severance	2	<b>55,930</b>	26,648
Patten Grant – Non Severance	2	<b>21,683</b>	17,428
		<b>840,993</b>	706,622
<b>Other income</b>			
Release from Capital Grant Reserve	15	<b>31,381</b>	28,241
Operating income	3	<b>4,307</b>	2,892
		<b>876,681</b>	737,755
<b>Expenditure</b>			
Staff costs	4	<b>553,938</b>	550,211
Other operating costs	5	<b>176,127</b>	194,093
Notional cost of capital	6	<b>13,295</b>	10,644
Amortisation and depreciation	9,10	<b>27,546</b>	27,077
		<b>770,906</b>	782,025
<b>Surplus/(deficit) before exceptional item</b>		<b>105,775</b>	(44,270)
<b>Exceptional item: pension liability</b>	7	<b>(4,288)</b>	(6,272)
<b>Surplus/(deficit) before interest</b>		<b>101,487</b>	(50,542)
<b>Interest paid and similar charges</b>	8	<b>(7,210)</b>	(1,069)
<b>Surplus/(deficit) for the year</b>		<b>94,277</b>	(51,611)
Credit in respect of notional cost of capital	6	<b>13,295</b>	10,644
<b>Amount transferred to/(from) reserves</b>	15	<b>107,572</b>	(40,967)

## Statement of total recognised gains and losses for the year ended 31 March 2006

	<b>Year ended 31 March 2006 £000</b>	Year ended 31 March 2005 £000
	Note	
<b>Surplus/(deficit) for the year</b>	<b>94,277</b>	(51,611)
Unrealised surplus on revaluation of fixed assets	15 <u>22,995</u>	<u>40,592</u>
<b>Total recognised gain/(losses) for the year</b>	<b><u>117,272</u></b>	<b><u>(11,019)</u></b>

*The notes on pages 25 to 37 form part of this account.*

All amounts above relate to continuing activities.



## Balance Sheet as at 31 March 2006

	Notes	Year ended 31 March 2006 £000	Year ended 31 March 2005 £000
<b>Fixed assets</b>			
Intangible fixed assets	9	3,349	0
Tangible fixed assets	10	550,602	526,356
		<u>553,951</u>	<u>526,356</u>
<b>Current assets</b>			
Stocks	11	5,242	6,252
Debtors	12	18,394	19,335
Bank and Cash	16.2	12,497	10,049
		<u>36,133</u>	<u>35,636</u>
<b>Creditors: amounts falling due within one year</b>	13	<u>(39,674)</u>	<u>(47,090)</u>
<b>Net current liabilities</b>		<u>(3,541)</u>	<u>(11,454)</u>
<b>Total assets less current liabilities</b>		<u>550,410</u>	<u>514,902</u>
<b>Creditors: amounts falling due after more than one year</b>			
Provision for liabilities and charges	14	<u>(101,127)</u>	<u>(204,499)</u>
<b>Total assets less total liabilities</b>		<u>449,283</u>	<u>310,403</u>
<b>Financed by</b>			
<b>Capital and reserves</b>			
General fund	15	(104,668)	(215,953)
Capital grant reserve	15	553,951	526,356
		<u>449,283</u>	<u>310,403</u>

*The notes on pages 25 to 37 form part of this account.*

Sir Hugh Orde  
Chief Constable  
Police Service of Northern Ireland

27 October 2006

## Cash Flow Statement for the year ended 31 March 2006

	Year ended <b>31 March</b> <b>2006</b> <b>£000</b>	Year ended 31 March 2005 £000
Notes		
<b>Net cash inflow from operating activities</b>	16.1 <b>694</b>	2,878
<b>Capital expenditure</b>		
Purchase of tangible fixed assets	16.3 <b>(40,247)</b>	(41,755)
Proceeds from disposal of fixed assets	<b>2,307</b>	1,039
<b>Net cash outflow from capital expenditure</b>	<b>(37,940)</b>	(40,716)
<b>Financing</b>		
Capital grant to acquire fixed assets	16.3 <b>39,694</b>	41,204
<b>Net cash inflow from financing</b>	<b>39,694</b>	41,204
<b>Increase in cash</b>	16.2 <b>2,448</b>	3,366

*The notes on pages 25 to 37 form part of this account.*

# Notes to the Annual Financial Statements for the year ended 31 March 2006

## 1 Statement of accounting policies

These financial statements have been prepared in accordance with the 2005-2006 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 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.

### 1.3 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.

### 1.4 Notional cost of capital

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

### 1.5 Pension costs

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

Direct civilian employees were ordinary members of the PSNI (Civilian) Pension Scheme that was analogous to the Principal Civil Service Pension Scheme (NI). Legislation was approved on 8 March 2004 to add PSNI civilian direct recruits to the PCSPS(NI) as a Schedule 1 member, with effect from the 30 September 2002. The PSNI Scheme has now been wound up with the transfer of liability being made on 1 December 2005. This is in keeping with current HM Government policy to close all 'by analogy' schemes and transfer them into the main PCSPS schemes.

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

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

Separate pension scheme accounts have been prepared for the PSNI Police Pension Scheme for the year ended 31 March 2006.

#### *1.6 Value added tax*

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

#### *1.7 Stock*

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

#### *1.8 Provision for severance programmes*

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

#### *1.9 Provision for compensation claims*

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

#### *1.10 Provision for early retirement costs*

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

#### *1.11 Provision for pension liability*

Legislation was approved on 8 March 2004 to add PSNI civilian direct recruits to the PCSPS(NI) as a Schedule one member, with effect from the 30 September 2002. The PSNI Scheme has now been wound up with the transfer of liability being made on 1 December 2005. This is in keeping with current HM Government policy to close all 'by analogy' schemes and transfer them into the main PCSPS schemes.

An actuarial valuation of the scheme was carried out at 1 December 2005 based on 30 September 2002 as the effective date of transfer. PSNI has provided for this cost as an exceptional item.

#### *1.12 Provision for stock*

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.

#### *1.13 Leases*

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

### 1.14 Government grants

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

### 1.15 Third party assets

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

## 2 Reconciliation of grants

	Year ended 31 March 2006		Year ended 31 March 2005	
	£000	£000	£000	£000
Main Grant from Northern Ireland Office	<b>798,147</b>		694,228	
Less amount transferred to deferred capital	<b>(34,767)</b>		(31,682)	
		<b>763,380</b>		662,546
Patten Grant – Severance		<b>55,930</b>		26,648
Patten Grant – Non Severance	<b>26,610</b>		26,950	
Less amount transferred to deferred capital	<b>(4,927)</b>		(9,522)	
		<b>21,683</b>		17,428
		<b>840,993</b>		706,622
Add amount transferred to deferred capital (see note 15)		<b>39,694</b>		41,204
Total grant from NIO		<b>880,687</b>		747,826

## 3 Operating income

	Year ended 31 March 2006	Year ended 31 March 2005
	£000	£000
Fees for firearms certificates, permits and accident reports	<b>1,399</b>	944
Police transport	<b>316</b>	314
Profit on disposal of fixed assets	<b>20</b>	94
Other	<b>2,572</b>	1,540
	<b>4,307</b>	2,892

#### 4 Staff costs

	<b>Year ended 31 March 2006 £000</b>	Year ended 31 March 2005 £000
Wages and salaries	<b>440,903</b>	439,903
Social security costs	<b>40,212</b>	40,070
Pension costs (employer contribution)	<b>62,516</b>	60,445
Secondments/Agency	<b>10,307</b>	9,793
	<b>553,938</b>	550,211

The average number of employees over the year is as follows

	<b>Number</b>	Number
Chief Officers	<b>9</b>	11
PSNI (civilian)	<b>3,120</b>	3,229
PSNI (police officers)	<b>8,604</b>	8,928
PSNI (part-time reserve)	<b>893</b>	813
Secondments	<b>7</b>	2
Agency	<b>568</b>	515
	<b>13,201</b>	13,498

#### Principal Civil Service Pension Scheme (NI)

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

For 2005-2006, employers' contributions of £8,852,029 were paid to the PCSPS (NI) (2004-2005: £6,539,220) at one of four rates in the range 16% 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.

#### Police Service of Northern Ireland (Civilian) Pension Scheme

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

Legislation was approved on 8 March 2004 to add PSNI civilian direct recruits to the employments listed in Schedule 1 to the Superannuation (Northern Ireland) Order 1972 with effect from 30 September 2002. Therefore, the scheme was wound up during 2005-2006 and has transferred to the PCSPS(NI).

## PSNI Police Pension Scheme

Pension benefits for PSNI officers, including full time reserves, 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 depending on the officer's rank. Every officer is required to retire on attaining the age of 55 for rank Constable/Reserve Constable/Sergeant (age 57 for officers serving before 5.7.72), on an increasing scale up to age 65 for rank above Chief Superintendent. Constable/Sergeant ranks may however apply for up to five yearly extensions on attaining compulsory retirement age.

For 2005-2006, employers' contributions of £53,663,678 were paid to the PSNI Police Pension Scheme (2004-2005: £53,906,243) 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.

## Severance Payments

Severance Payments were made from 1 January 2001 to officers leaving the PSNI under the Voluntary Early Retirement and Severance Scheme for the PSNI. The Scheme was developed in line with the recommendations of the Independent Commission on Policing (Patten) and it was necessary, in order to fulfil Government commitments, to permit officers to leave from the planned date of 1 January 2001. The total of payments made in the year to 31 March 2006 was £52.87m. HM Treasury approved the payments.

## 5 Other operating costs

	Year ended 31 March 2006 £000	Year ended 31 March 2005 £000
Transport	12,386	10,568
IT and communications	32,532	26,835
Accommodation services	37,145	35,518
General expenses	51,174	44,702
Travel, subsistence and relocation	10,778	10,132
Audit fees (actual fee for 2004-2005 was £65,000, also includes £25,200 accrual for 2003-2004)	66	90
Hospitality	120	103
Reclassification of capital expenditure (see note 10)	1,383	0
Downward revaluation in fixed assets (see note 10)	3,855	1,258
Net Increase in Provisions excluding exceptional item for pensions liability (see note 14)	25,364	63,630
Charges for operating leases: photocopiers	407	510
property	917	747
	<b>176,127</b>	<b>194,093</b>

**6 Notional cost of capital**

	<b>Year ended 31 March 2006 £000</b>	Year ended 31 March 2005 £000
Total assets less total liabilities at 31 March	<b>310,403</b>	297,815
Total assets less total liabilities at 31 March	<b>449,283</b>	310,403
Cost of capital (3.5% of average)	<b>13,295</b>	10,644

**7 Exceptional item**

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 now 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 the year was £4,288m (2004-2005: £6,272m).

**8 Interest paid and similar charges**

	<b>Year ended 31 March 2006 £000</b>	Year ended 31 March 2005 £000
Unwind of discount on provisions	<b>7,210</b>	1,069

**9 Intangible fixed assets**

Software licences

	<b>Year ended 31 March 2006 £000</b>
<b>Cost</b>	
At 1 April 2005	<b>0</b>
Additions	<b>3,433</b>
Disposals	<b>0</b>
Transfers	<b>0</b>
At 31 March 2006	<b>3,433</b>
<b>Amortisation</b>	
At 1 April 2005	<b>0</b>
Charged in year	<b>84</b>
Disposals	<b>0</b>
At 31 March 2006	<b>84</b>
<b>Net book value</b>	
<b>At 31 March 2006</b>	<b>3,349</b>

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



**10 Tangible fixed assets**

	Land and Buildings £000	Assets in Course of Construction £000	Operational (inc Plant and Equip) £000	Vehicles (inc Aircraft) £000	IT and Comms £000	Total £000
<b>Cost or valuation</b>						
At 1 April 2005	503,423	12,121	10,023	56,648	80,742	662,957
Additions	10,440	9,150	1,266	7,356	8,049	36,261
Disposals	(2,003)	0	(792)	(3,945)	(4,166)	(10,906)
Transfers	1,966	(12,581)	0	3,758	6,857	0
Reclassification	0	(1,383)	0	0	0	(1,383)
Revaluation below Historical Cost	0	0	0	0	(6,952)	(6,952)
Revaluation	22,601	0	136	570	61	23,368
<b>At 31 March 2006</b>	<b>536,427</b>	<b>7,307</b>	<b>10,633</b>	<b>64,387</b>	<b>84,591</b>	<b>703,345</b>
<b>Depreciation</b>						
At 1 April 2005	53,262	0	5,870	29,689	47,780	136,601
Charged in year	11,833	0	640	7,668	7,321	27,462
Disposals	(324)	0	(687)	(3,660)	(3,925)	(8,596)
Revaluation below Historical Cost	0	0	0	0	(3,097)	(3,097)
Revaluation	0	0	57	261	55	373
<b>At 31 March 2006</b>	<b>64,771</b>	<b>0</b>	<b>5,880</b>	<b>33,958</b>	<b>48,134</b>	<b>152,743</b>
<b>Net book value</b>						
<b>At 31 March 2006</b>	<b>471,656</b>	<b>7,307</b>	<b>4,753</b>	<b>30,429</b>	<b>36,457</b>	<b>550,602</b>
At 31 March 2005	450,161	12,121	4,153	26,959	32,962	526,356

The Valuation and Lands Agency carried out an interim valuation of land and buildings on 31 March 2006. 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 2006 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 £62,134,831 and surplus assets with a net book value of £7,430,000.

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

Land	– £103,995,000
Assets in course of construction	– £7,307,000

During the year £1.383m of assets in course of construction capitalised in 2004/05 were reclassified as revenue expenditure.

**11 Stocks**

	<b>Year ended 31 March 2006 £000</b>	Year ended 31 March 2005 £000
General stores	<b>2,363</b>	2,857
Transport Services stores	<b>1,332</b>	1,075
Information and Communication Services stores	<b>449</b>	1,410
Heating oil	<b>487</b>	383
Petrol and diesel	<b>611</b>	527
	<b>5,242</b>	6,252

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

Trade debtors	<b>406</b>	697
Other debtors	<b>12,120</b>	13,122
Prepayments and accrued income	<b>5,868</b>	5,516
	<b>18,394</b>	19,335

*12b Intra government debtor balances*

	<b>Year ended 31 March 2006 £000</b>	Year ended 31 March 2005 £000
<b>Amounts falling due within 1 year</b>		
Balances with NIO Core, its agencies and NDPBs	<b>3,183</b>	2,512
Balances with other central government bodies	<b>451</b>	260
Balances with local authorities	<b>48</b>	5
Balances with NHS Trusts	<b>0</b>	132
Balances with public corporations and trading funds	<b>0</b>	-
Balances with bodies external to government	<b>14,712</b>	16,426
<b>Total</b>	<b>18,394</b>	19,335

*13a Creditors: amounts falling due within one year*

Trade creditors	<b>10,423</b>	11,939
Taxation and social security	<b>13,382</b>	14,269
Payroll accrual	<b>12,803</b>	13,090
Other creditors	<b>3,066</b>	7,792
	<b>39,674</b>	47,090

*13b Intra government creditor balances*

<b>Amounts falling due within one year</b>		
Balances with NIO Core, its agencies and NDPBs	<b>283</b>	4,070
Balances with other central government bodies	<b>1,420</b>	2,646
Balances with local authorities	<b>13</b>	27
Balances with NHS Trusts	<b>0</b>	0
Balances with public corporations and trading funds	<b>50</b>	76
Balances with bodies external to government	<b>37,908</b>	40,271
<b>Total</b>	<b>39,674</b>	47,090

**14 Provisions for liabilities and charges**

	Voluntary and FTR Severance £000	Compensation Claims £000	Pension Liability £000	Stock £000	Early retirement £000	Total £000
At 1 April 2005	113,882	14,755	75,282	580	0	204,499
Utilised in Year	(52,866)	(5,068)	(82,277)	0	(23)	(140,234)
Provision not utilised	(1,076)	700	0	0	0	(376)
Discount unwind	3,987	516	2,707	0	0	7,210
Increase/(decrease) in Provision	27,161	(1,511)	4,288	48	42	30,028
<b>At 31 March 2006</b>	<b>91,088</b>	<b>9,392</b>	<b>0</b>	<b>628</b>	<b>19</b>	<b>101,127</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, 303 officers left the service. The provision is in respect of a further 620 officers estimated to leave during 2006-2007 to 2007-2008. As the schemes for future years have been approved but not yet commenced, the provision in respect of these years is subject to uncertainty and is based on estimates of numbers, ranks and profiles of officers who may apply and an average amount they may receive. HM Treasury is committed to funding the scheme. Please also refer to note 19 on contingent liabilities.

*Full Time Reserve (FTR) Programme*

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

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

*Compensation claims*

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

	Injury Claims £000	Damage claims £000	Legal Fees £000	Total £000
At 1 April 2005	7,669	261	6,825	14,755
Utilised in Year	(2,205)	(79)	(2,784)	(5,068)
Provision not utilised	12	(143)	831	700
Discount unwind	268	9	239	516
Increase/(decrease) in provision	(1,002)	144	(653)	(1,511)
<b>At 31 March 2006</b>	<b>4,742</b>	<b>192</b>	<b>4,458</b>	<b>9,392</b>

At the 31 March 2006 there were 1,723 'live' injury or wrongful acts claims and 381 '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.

#### *Pension liability*

As noted under the exceptional item, legislation was approved on 8 March 2004 to add PSNI civilian direct recruits to the employments listed in Schedule 1 to the Superannuation (Northern Ireland) Order 1972 with effect from 30 September 2002. This Scheme has now been wound up with the transfer being made on 1 December 2005.

The accruing cost of the PSNI Civilian Pension Scheme has been calculated by the Government Actuary Department as £82.3 million at 1 December 2005 (including interest of £15.7 million). The full liability of £82.3 million was paid to the Department of Finance and Personnel (DFP) on the 1 December 2005.

#### *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 £628,000 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*

During the year a decision was taken to allow two 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 £19,000 as at 31 March 2006.

### **15 Reconciliation of government funds**

	General Fund £000	Grant Capital Reserve £000
At 1 April 2005	(215,953)	526,356
Transfer from income and expenditure account	107,572	0
Adjustment for fixed asset disposals	2,330	(2,330)
Reclassification of capital expenditure	1,383	(1,383)
Additions in year	0	39,694
Surplus on revaluation of fixed assets	0	22,995
Release to Income and Expenditure account	0	(31,381)
<b>At 31 March 2006</b>	<b>(104,668)</b>	<b>553,951</b>

**16 Notes to cash flow statement***16.1 Reconciliation of operating surplus to net cash outflow from operating activities*

	<b>Year ended 31 March 2006 £000</b>	Year ended 31 March 2005 £000
Surplus/(deficit) for the year before interest and exceptional item	<b>105,775</b>	(44,270)
Interest	<b>(7,210)</b>	(1,069)
Depreciation	<b>27,546</b>	27,077
(Profit) on disposal of fixed assets	<b>(20)</b>	(94)
Notional cost of capital	<b>13,295</b>	10,644
Release from Capital Grant Reserve	<b>(31,381)</b>	(28,241)
Reclassification of capital expenditure (see note 10)	<b>1,383</b>	0
Revaluation below Historical Cost	<b>3,855</b>	1,258
Decrease/(increase) in stock	<b>1,010</b>	(327)
Decrease/(increase) in debtors	<b>964</b>	(4,246)
(Decrease)/increase in creditors	<b>(6,863)</b>	5,796
Increase in provisions	<b>29,652</b>	69,902
Provisions used	<b>(140,234)</b>	(28,349)
Unwinding of discount	<b>7,210</b>	1,069
Adjustment for pension provision (see note 14)	<b>(4,288)</b>	(6,272)
Net cash inflow from operating activities	<b>694</b>	2,878

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

Cash in bank at 1 April	<b>10,049</b>	6,683
Net cash inflow	<b>2,448</b>	3,366
Cash in bank at 31 March	<b>12,497</b>	10,049

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

Purchase fixed assets	<b>40,247</b>	41,755
Opening capital creditors	<b>(1,748)</b>	(2,299)
Closing capital creditors	<b>1,195</b>	1,748
Opening capital debtors	<b>0</b>	0
Closing Capital debtors	<b>0</b>	0
Capital grant to acquire fixed assets	<b>39,694</b>	41,204

**17 Capital commitments**

	<b>Year ended 31 March 2006 £000</b>	Year ended 31 March 2005 £000
Contracted	<b>38,751</b>	43,725
Authorised but not contracted	<b>93,179</b>	29,956
	<b>131,930</b>	73,681

## 18 Obligations under leases

Annual commitments under non-cancellable operating leases are as follows

	Land and Buildings		Other	
	Year ended 31 March 2006 £000	Year ended 31 March 2005 £000	Year ended 31 March 2006 £000	Year ended 31 March 2005 £000
<i>Operating leases which expire</i>				
Within one year	45	46	13	130
In two to five years	45	301	157	126
In over five years	409	148	0	0
	<u>499</u>	<u>495</u>	<u>170</u>	<u>256</u>

## 19 Contingent liabilities

### *Voluntary severance*

Details of the voluntary severance schemes beyond 2007-2008 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 930 officers leaving under the scheme at an estimated cost of approximately £101 million. HM Treasury is committed to funding future agreed schemes.

### *Full Time Reserve (FTR) Programme*

A decision on the remaining FTR officers has not yet been made and will be dependant on future security reviews. Should a decision be taken to release the remaining 680 FTR officers the estimated costs are approximately £70 million.

### *Post Traumatic Stress Disorder Class Action*

The PSNI and the Northern Ireland Policing Board are named defendants in a class action by 5,585 former and serving police officers. The hearing for this case began in November 2005 and concluded in June 2006. The judgement is expected to be delivered in November 2006. Due to the nature and stage of the legal proceedings, it is not considered appropriate to provide further disclosure.

### *Working Time Regulations Cases*

Approximately 6,200 former and serving police officers and civilian staff have issued industrial tribunal applications against the Chief Constable, claiming that he has breached the terms of the Working Time Regulations.

Initial indications are that any likely 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 civilian staff and family members, arising out of a breach of security. The action is still at an early stage.

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

**20 Losses and special payments**

Type	No of Cases	£000
Overpayments	39	6
Stores	369	73
Claims waived or abandoned	883	310
Special payments – compensation	426	1,862
Special payments – compensation	1	400
Ex-Gratia payments	2	5
Fruitless payment and constructive losses	7	3

**21 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 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 31 March 2006 £000</b>	Year ended 31 March 2005 £000
Bank balances and monetary sealed packages held	<b>1,425</b>	1,286

## 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* (Previously ACC for Rural Region. Replaced Sam Kinkaid who retired in February 2006.)  
Assistant Chief Constable Crime Operations

*Roy Toner*  
Assistant Chief Constable Operational Support

*Drew Harris* (Appointed in March 2006 to replace Judith Gillespie who is now responsible for Rural Region.)  
Assistant Chief Constable Criminal Justice

*Duncan McCausland*  
Assistant Chief Constable Urban Region

*Judith Gillespie* (Previously ACC Criminal Justice. Replaced Peter Sheridan in February 2006, who is now responsible for Crime Operations.)  
Assistant Chief Constable Rural Region

*David Best*  
Director of Finance and Support Services

*Joe Stewart*  
Director of Human Resources



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

### 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 Police Property Fund has no post balance sheet events.

### Future developments

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

### Charitable contributions

Police Property 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. PSNI paid only one invoice in respect of the Police Property Fund this year which was paid within 30 days of the date on which it was registered for payment.

## 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 (2004-2005: £2,000).

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.

## Chief Constable's Annual Report

A certified copy of these Police Property 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 2005-2006 Annual Report, which was published in June 2006.

# 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 surplus £11,077 (2004-2005: £6,733). There were no charitable donations made during the year and the General Fund increased to £26,286 as at 31 March 2006.

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

27 October 2006

## 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. The responsibilities of an Accounting Officer are set out in the Police Act 2000 and in the HM Treasury memorandum 'Responsibilities of an NDPB Accounting Officer'.

## The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of organisational policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in PSNI for the year ended 31 March 2006 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 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 2005-2006. 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 2005-2006. The Register has been revised and updated to take account of the new priorities for 2006-2007. In addition to the formal quarterly review of the Corporate Risk Register, since November 2005, Chief Officers also agreed to consider the Corporate Risk Register on a regular basis at the Chief Constable's Forum. The key risk priorities facing the organisation during 2005-2006 were in the generic areas of funding, procurement, human resourcing 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 are required to sign a Stewardship Statement on a half yearly basis to confirm that over a period of time, they have reviewed the risk register for their respective areas of responsibility and assessed the management of the risks identified. The signing of the Stewardship Statements helps to provide assurance that all risks are being managed in the organisation.

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

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 working to develop a systematic process for coordinating assurance and third party reporting. The risk and control framework will also continue to develop to reflect a changing environment. Risk management is being incorporated more fully into the corporate planning and decision-making processes of the organisation and will provide increased assurance that significant risks will be identified, evaluated and appropriately controlled within the organisation.

### Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the Internal Auditors and the Chief Officers within the organisation who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Chief Officers and the Audit 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. PSNI has developed a framework to give assurance in management of risk across the organisation.

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.

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

27 October 2006

# 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 2006 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 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 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 also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, 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 pages 43 to 44 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 Chief Constable'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. This other information comprises only the Foreword and the Management Commentary. 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.

## 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 2006 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
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

11 January 2007

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



## Income and Expenditure Account for the year ended 31 March 2006

	<b>Year ended 31 March 2006 £</b>	Year ended 31 March 2005 £
<b>Income</b>		
Proceeds from sale of seized and lost property	<b>11,506</b>	8,222
Re-imburement of VAT	<b>222</b>	0
<b>Expenditure</b>	<b>11,728</b>	8,222
Sundry Expenses of collection, storage and disposal	<b>(651)</b>	(1,489)
<b>Surplus for the year</b>	<b>11,077</b>	6,733

There have been no gains or losses other than those recognised in the Income & 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 2006

	Notes	Year ended 31 March 2006 £	Year ended 31 March 2005 £
<b>Current assets</b>			
Debtor	2	<b>26,937</b>	16,698
<b>Current liabilities</b>			
Creditor	3	<b>(651)</b>	(1,489)
<b>Net current assets</b>		<b>26,286</b>	15,209
<b>Total assets less total liabilities</b>		<b>26,286</b>	15,209
<b>Financed by</b>			
<b>Reserves</b>			
General Fund	4	<b>26,286</b>	15,209
		<b>26,286</b>	15,209

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

Sir Hugh Orde  
Chief Constable  
Police Service of Northern Ireland

27 October 2006

## Cash Flow Statement for the year ended 31 March 2006

	<b>Year ended 31 March 2006 £</b>	Year ended 31 March 2005 £
<b>Net cash inflow from operating activities</b> (see note 6)	<b>0</b>	0
<b>Increase 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 2006

## 1 Statement of principal accounting policies

These financial statements have been prepared in accordance with the 2005-2006 Government Financial Reporting Manual (FReM) issued by the 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

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

### 1.3 Bank

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

## 2 Debtor

	<b>31 March 2006</b>	31 March 2005
	<b>£</b>	£
Money due from the PSNI	<b>26,937</b>	16,698

## 3 Creditor

Money due to the PSNI	<b>651</b>	1,489
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## 4 General Fund

Balance at 1 April	<b>15,209</b>	8,476
Add surplus for the year	<b>11,077</b>	6,733
Balance at 31 March	<b>26,286</b>	15,209

## 5 Related party disclosures

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

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

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

## 6 Reconciliation of Operating Surplus/(Deficit) for the year to Net Cash Inflow from Operating Activities

	<b>Year ended 31 March 2006 £</b>	Year ended 31 March 2005 £
Operating surplus	<b>11,077</b>	6,733
(Increase)/decrease in debtors	<b>(10,239)</b>	(7,125)
(Decrease)/increase in creditors	<b>(838)</b>	392
	<u>0</u>	<u>0</u>

## 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* (Previously ACC for Rural Region. Replaced Sam Kinkaid who retired in February 2006.)  
Assistant Chief Constable Crime Operations

*Roy Toner*  
Assistant Chief Constable Operational Support

*Drew Harris* (Appointed in March 2006 to replace Judith Gillespie who is now responsible for Rural Region.)  
Assistant Chief Constable Criminal Justice

*Duncan McCausland*  
Assistant Chief Constable Urban Region

*Judith Gillespie* (Previously ACC Criminal Justice. Replaced Peter Sheridan in February 2006, who is now responsible for Crime Operations.)  
Assistant Chief Constable Rural Region

*David Best*  
Director of Finance and Support Services

*Joe Stewart*  
Director of Human Resources

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

### Company directorships

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

### Tangible Fixed assets

The Police Fund has no tangible fixed assets.

### 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 Police Fund has no post balance sheet events.

### 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 96.8% 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 (2004-2005: £2,000).

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.

## Chief Constable's Annual Report

A certified copy of these Police Fund Financial Statements will be included on the PSNI's website ([www.psni.police.uk](http://www.psni.police.uk)), as an addendum to the Chief Constable's 2005-2006 Annual Report, which was published in June 2006.



## 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 £18,247 (2004-2005: £11,297). There were no charitable donations made during the year and the General Fund increased to £104,119 as at 31 March 2006.

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

27 October 2006

## 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. The responsibilities of an Accounting Officer are set out in the Police Act 2000 and in the HM Treasury memorandum 'Responsibilities of an NDPB Accounting Officer'.

## The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of organisational policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in PSNI for the year ended 31 March 2006 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 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 2005-2006. 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 2005-2006. The Register has been revised and updated to take account of the new priorities for 2006-2007. In addition to the formal quarterly review of the Corporate Risk Register, since November 2005, Chief Officers also agreed to consider the Corporate Risk Register on a regular basis at the Chief Constable's Forum. The key risk priorities facing the organisation during 2005-2006 were in the generic areas of funding, procurement, human resourcing 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 are required to sign a Stewardship Statement on a half yearly basis to confirm that over a period of time, they have reviewed the risk register for their respective areas of responsibility and assessed the management of the risks identified. The signing of the Stewardship Statements helps to provide assurance that all risks are being managed in the organisation.

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

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 working to develop a systematic process for coordinating assurance and third party reporting. The risk and control framework will also continue to develop to reflect a changing environment. Risk management is being incorporated more fully into the corporate planning and decision-making processes of the organisation and will provide increased assurance that significant risks will be identified, evaluated and appropriately controlled within the organisation.

### Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the Internal Auditors and the Chief Officers within the organisation who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Chief Officers and the Audit 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. PSNI has developed a framework to give assurance in management of risk across the organisation.

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

27 October 2006

# 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 2006 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 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 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 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 also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, 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 pages 57 to 58 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 Chief Constable'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. This other information comprises only the Foreword and the Management Commentary. 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.

## 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 2006 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
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

11 January 2007

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

## Income and Expenditure Account for the year ended 31 March 2006

	Year ended <b>31 March</b> <b>2006</b> £	Year ended 31 March 2005 £ Restated
<b>Income</b>		
Dividends and interest	<b>2,950</b>	2,866
Grant income	2 <b>17,323</b>	14,127
Inland Revenue refund	<b>0</b>	581
Fines on members of the PSNI	<b>16,084</b>	12,980
	<b>36,357</b>	30,554
<b>Expenditure</b>		
Disbursements for the welfare of members of PSNI and their dependants	<b>18,087</b>	19,087
Administrative costs	<b>23</b>	0
Corporation Tax	<b>0</b>	170
	<b>18,110</b>	19,257
<b>Surplus for the year</b>	<b>18,247</b>	11,297

## Statement of total recognised gains and losses for the year ended 31 March 2006

	<b>Year ended 31 March 2006 £</b>	Year ended 31 March 2005 £ Restated
Surplus for the year	<b>18,247</b>	11,297
Surplus on revaluation of fixed assets	<b>1,156</b>	112
Total recognised gains for the year	<b>19,403</b>	11,409

*The notes on pages 65 to 66 form part of this account.*

All amounts above relate to continuing activities.



## Balance Sheet as at 31 March 2006

		<b>Year ended 31 March 2006 £</b>	Year ended 31 March 2005 £ Restated
<b>Fixed assets</b>			
Investments	3	<b>64,621</b>	63,465
<b>Current assets</b>			
Debtors	4	<b>28,669</b>	13,675
Bank	5	<b>18,146</b>	15,311
		<b>46,815</b>	28,986
<b>Current liabilities</b>			
Creditors	6	<b>(4,712)</b>	(5,130)
<b>Net current assets</b>		<b>42,103</b>	23,856
<b>Total assets less total liabilities</b>		<b>106,724</b>	87,321
<b>Financed by</b>			
<b>Reserves</b>			
General Fund	7	<b>104,119</b>	85,872
Revaluation Reserve	8	<b>2,605</b>	1,449
		<b>106,724</b>	87,321

*The notes on pages 65 to 66 form part of this account.*

Sir Hugh Orde  
Chief Constable  
Police Service of Northern Ireland

27 October 2006

## Cash Flow Statement for the year ended 31 March 2006

	<b>Year ended 31 March 2006 £</b>	Year ended 31 March 2005 £ Restated
Net cash inflow from operating activities	9 <b>2,835</b>	1,272
Increase in cash	<b>2,835</b>	1,272

*The notes on pages 65 to 66 form part of this account.*

# Notes to the Annual Financial Statements

## 1 Statement of principal accounting policies

These financial statements have been prepared in accordance with the 2005-2006 Government Financial Reporting Manual (FReM) issued by the 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 therefore not liable to Corporation Tax.

### 1.4 Adjustment to prior year

An adjustment was made to the figures previously reported for the year ended 31 March 2005. This was due to various disbursements amounting to £3,937 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 Grant income

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

	<b>Year ended 31 March 2006 £</b>	Year ended 31 March 2005 £ Restated
<b>3 Investments</b>		
14,200 4% Consolidated Stock at Market Value (Cost £10,016).	<b>12,621</b>	11,465
Advances to the Consolidated Fund of Northern Ireland	<b>52,000</b>	52,000
	<b>64,621</b>	63,465
<b>4 Debtors</b>		
Money due from PSNI	<b>28,555</b>	13,561
Money due from HM Revenue and Customs	<b>114</b>	114
	<b>28,669</b>	13,675

**5 Bank**

	<b>Year ended 31 March 2006 £</b>	Year ended 31 March 2005 £ Restated
Opening bank balance 1 April	<b>15,311</b>	14,039
Net cash inflow	<b>2,835</b>	1,272
Closing bank balance 31 March	<b>18,146</b>	15,311

**6 Creditors**

Money due to PSNI	<b>4,700</b>	1,193
Disbursements due	<b>0</b>	3,937
Administrative Expenses	<b>12</b>	0
	<b>4,712</b>	5,130

**7 General fund**

Balance as at 1 April	<b>85,872</b>	74,575
Surplus for the year	<b>18,247</b>	11,297
Balance as at 31 March	<b>104,119</b>	85,872

**8 Revaluation reserve**

Balance as at 1 April	<b>1,449</b>	1,337
Surplus on revaluation of fixed asset	<b>1,156</b>	112
Balance as at 31 March	<b>2,605</b>	1,449

**9 Notes to the cash flow statement**

Surplus for the year	<b>18,247</b>	11,297
(Increase) in debtors	<b>(14,994)</b>	(2,542)
Increase/(decrease) in creditors	<b>(418)</b>	(7,483)
Net cash inflow from operating activities	<b>2,835</b>	1,272

**10 Related party disclosures**

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

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

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

# Report of the Managers – Police Pension Scheme

## Introduction

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

A New Police Pensions Scheme was introduced on 6 April 2006 and is the only scheme now available to new recruits. Existing members will have 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 third standalone Pension Scheme Accounts for the Police Pension Scheme. The rationale of preparing separate pension scheme accounts is to avoid the detail required by FRS 17 (Retirement Benefits) from overshadowing and drawing attention away from the record of the police's core financial performance. Prior to these Pension Scheme Accounts, a Revenue Account and FRS 17 information was disclosed as part of the PSNI Annual Financial Statements.

The PSNI Police Pension Scheme is administered by the PSNI.

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

### Managers

#### *Accounting Officer*

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

#### *Pension Scheme Administrator*

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

### Advisers

#### *Pension Scheme Actuary*

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

#### *Government Department*

Northern Ireland Office  
Castle Buildings  
Belfast  
BT4 3SG

#### *Auditors*

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

#### *Bankers*

Northern Bank  
Donegall Square West  
Belfast

The Scheme has no separate bank account. It uses the banking arrangements of the PSNI.

### Employers

#### *Principal Employer*

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

### Changes to the Scheme

Pensions were increased by 3.1% with effect from 11 April 2005. There have been no other changes to the scheme during the year.

### Additional Voluntary Contributions and Stakeholder Pensions

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

£85,000 of contributions have been made by members of PSNI to the scheme during the year (see note 15).

### Membership statistics

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

#### Active Members

At 1 April 2005	8,894
New entrants	445
Retirements in the year	(642)
Deaths	(3)
Other leavers	(136)
At 31 March 2006	<b>8,558</b>

#### Deferred Members

At 1 April 2005	642
Members leaving who have deferred pension rights	124
Members taking up deferred pension rights	(24)
At 31 March 2006	<b>742</b>

#### Pensioners in payment

	Members	Dependents	Total
At 1 April 2005	8,066	1,406	9,472
Members retiring in year at normal retirement age	24	0	24
Other retirements	691	0	691
New dependants	0	82	82
Cessations	(102)	(76)	(178)
At 31 March 2006	<b>8,679</b>	<b>1,412</b>	<b>10,091</b>

#### Compensation payments

At 1 April 2005	131	0	131
Members leaving under early retirement	98	0	98
Members reaching normal retirement age during the year	(17)	0	(17)
At 31 March 2006	<b>212</b>	<b>0</b>	<b>212</b>

**Going concern**

The Balance Sheet at 31 March 2006 shows net liabilities of £4,156.90m. 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 2006-2007 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**

As detailed below, a New Police Pension Scheme was introduced from 6 April 2006. There have also been important changes to the tax regime. Implementing these new arrangements will be a significant challenge in the year ahead.

**Post balance sheet events**

New pension arrangements known as the 'New Police Pension Scheme' came into effect on 6 April 2006. This is the only scheme now available to new police recruits. Existing members of the Police Pension Scheme will have a one-off opportunity to transfer to the new scheme.

Also, from 6 April 2006, injury awards are no longer permitted to be part of pension schemes and will be controlled and accounted for separately. The pension liability in respect of injury awards was valued at £187m as at 31 March 2006.

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 Scheme. 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 £16,000 (2004-2005: £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 the PSNI 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 2006 of expected future benefit payments under the Police Pension Scheme, for benefits accrued in respect of employment (or former employment) prior to 31 March 2006, 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
Actives (past service)	(2,076.19)
Deferred Pensioners	(53.91)
Current Pensioners (excluding injury)	(1,839.80)
Current Pensioners (injury awards)	(187.00)
<b>Total</b>	<b>(4,156.90)</b>

### b Accruing costs

The cost of benefits accruing for each year is met partly by a contribution of 11% of pensionable salary by members, with the employer meeting the balance of the cost. The cost of benefits accruing in the year 2005-2006 has been assessed as follows

	% of pensionable pay
Employer's share of standard cost	34.8%

In relation to the pensionable payroll for the financial year, the actual charges made to employers in cash terms are assessed as £92.24 million for the financial year 2005-2006.

### 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 increases will be 4.0% pa excluding promotional and performance increments;
- a long term nominal discount rate of 5.4% pa; and
- a rate of long-term inflation and pensions increases of 2.5% 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 Scheme 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 The assessment includes allowance for injury benefits in payment. It does not include any allowance for injury benefits that may be awarded in the future.
- 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 2005, together with summary data as at 31 March 2006.

*Andrew Johnston*  
Government Actuary's Department  
London

23 June 2006

## 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 Scheme during the year and the disposition, at the end of the financial year, of the net liability. Note 2, 'Accounting Policies', to the financial statements describes those transactions which are accounted for on a cash basis, the use of which has no material effect on the net outgoings for the year nor on the net liability at the year end.

In preparing 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 Scheme. 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 scheme, 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. The responsibilities of an Accounting Officer are set out in the Police Act 2000 and in the HM Treasury memorandum 'Responsibilities of an NDPB Accounting Officer'.

## The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of organisational policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in PSNI for the year ended 31 March 2006 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 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 2005-2006. 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 2005-2006. The Register has been revised and updated to take account of the new priorities for 2006-2007. In addition to the formal quarterly review of the Corporate Risk Register, since November 2005, Chief Officers also agreed to consider the Corporate Risk Register on a regular basis at the Chief Constable's Forum. The key risk priorities facing the organisation during 2005-2006 were in the generic areas of funding, procurement, human resourcing 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 are required to sign a Stewardship Statement on a half yearly basis to confirm that over a period of time, they have reviewed the risk register for their respective areas of responsibility and assessed the management of the risks identified. The signing of the Stewardship Statements helps to provide assurance that all risks are being managed in the organisation.

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

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 working to develop a systematic process for coordinating assurance and third party reporting. The risk and control framework will also continue to develop to reflect a changing environment. Risk management is being incorporated more fully into the corporate planning and decision-making processes of the organisation and will provide increased assurance that significant risks will be identified, evaluated and appropriately controlled within the organisation.

### Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the Internal Auditors and the Chief Officers within the organisation who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Chief Officers and the Audit 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. PSNI has developed a framework to give assurance in management of risk across the organisation.

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.

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

27 October 2006

# 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 Police Pension Scheme for the year ended 31 March 2006 under the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003. These comprise the Revenue Account and Statement of Total Recognised Gains and Losses, the Balance Sheet, 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 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. I also report to you if, in my opinion, the Report of the Managers is not consistent with the financial statements, the Report of the Managers is not consistent with the Actuary's Report, if the Police Service of Northern Ireland has not kept proper accounting records or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 73 to 74 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 Chief Constable's statements on internal control cover all risks and controls, or to 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 Police Pension Scheme Accounts and consider whether it is consistent with the audited financial statements. This other information comprises only the Report of the Managers and the Report of the Actuary. 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 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

In my opinion

- the financial statements give a true and fair view of the Scheme for the year ending 31 March 2006, the net outgoings, total recognised gains and losses and the cash requirement for the year and the amount and disposition at that date of its assets and liabilities, and have been properly prepared in accordance with the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003 and directions made thereunder by the Secretary of State for Northern Ireland; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

11 January 2007

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

## Revenue Account for the year ended 31 March 2006

	Notes	Year ended 31 March 2006 £000	Year ended 31 March 2005 £000
<b>Income</b>			
Contributions receivable	3	<b>82,883</b>	83,591
Transfers in	4	<b>2,280</b>	2,570
Other income	5	<b>52,377</b>	38,880
Total		<b>137,540</b>	125,041
<b>Outgoings</b>			
Current service cost	6, 11.1	<b>(121,401)</b>	(105,030)
Past service cost	6, 11.1	<b>(9,250)</b>	(10,920)
Transfers in	6, 11.1	<b>(2,280)</b>	(2,570)
Total		<b>(132,931)</b>	(118,520)
<b>Surplus for the year before interest</b>		<b>4,609</b>	6,521
Interest on scheme liabilities	7, 11.1	<b>(212,280)</b>	(208,210)
<b>Net outgoings for the year</b>		<b>(207,671)</b>	(201,689)

## Statement of total recognised gains and losses for the year ended 31 March 2006

<b>Net outgoings for the year</b>		<b>(207,671)</b>	(201,689)
Actuarial loss*	11.3	<b>(477,150)</b>	(63,957)
Recognised losses for the year		<b>(684,821)</b>	(265,646)

*The notes on pages 80 to 86 form part of these accounts.*

\* 2004-2005 figures restated to reflect adjustments detailed in note 11.3.

## Balance Sheet as at 31 March 2006

		<b>Year ended 31 March 2006</b>	Year ended 31 March 2005
	Notes	£	£
<b>Current assets</b>			
Debtors	9	<b>3,293</b>	2,566
<b>Creditors due within one year</b>			
Creditors	10	<b>(3,293)</b>	(2,565)
<b>Net current assets, excluding pension liability</b>			
		0	1
<b>Provisions for liability and charges</b>			
Provision for pension liability*	11.1	<b>(4,156,900)</b>	(3,472,080)
<b>Net liabilities, including pension liability</b>			
		<b>(4,156,900)</b>	(3,472,079)
<b>Financed by</b>			
Opening balance		<b>(3,472,079)</b>	(3,206,433)
Net outgoings for the year		<b>(207,671)</b>	(201,689)
Actuarial loss*	11.3	<b>(477,150)</b>	(63,957)
<b>Closing balance</b>			
		<b>(4,156,900)</b>	(3,472,079)

*The notes on pages 80 to 86 form part of these accounts.*

\* 2004-2005 figures restated to reflect adjustments detailed in note 11.3.

Sir Hugh Orde  
Chief Constable  
Police Service of Northern Ireland

27 October 2006



## Cash Flow Statement for the year ended 31 March 2006

	<b>Year ended 31 March 2006</b>	Year ended 31 March 2005
Notes	£	£
<b>Reconciliation of net outgoings to operating cash flows</b>		
Net outgoings for the year	<b>(207,671)</b>	(201,689)
Adjustments for movements in working capital	<b>1</b>	0
Increase in pension provision	11.1 <b>333,681</b>	313,240
Increase in pension provision – enhancements and transfers in	11.1 <b>11,530</b>	13,490
Use of provision	11.1 <b>(137,541)</b>	(125,041)
<b>Net cash inflow from operating activities</b>	<b>0</b>	0
	<hr/>	<hr/>
<b>Financing</b>	<b>0</b>	0
	<hr/>	<hr/>
<b>Increase/(decrease) in cash in the period</b>	<b>0</b>	0
	<hr/>	<hr/>

*The notes on pages 80 to 86 form part of these accounts.*

# Notes to the Accounts

## 1 Basis of preparation of the scheme statement

This year, the PSNI Pension scheme statement has been prepared in accordance with the relevant provisions of the 2005-2006 Government Financial Reporting Manual (FReM) issued by the Treasury, which reflects the requirements of Financial Reporting Standard (FRS) 17 Retirement Benefits. These accounts show the unfunded pension liability and movements in that liability during the year. The accounts also have regard to the recommendations of the Statement of Recommended Practice (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.

In previous years, the discount rate applied was a high quality corporate bond rate as defined by the SORP. However, in complying fully with the FReM this year, the discount rate applied is the appropriate rate set by the Treasury. Previous year's figures have been restated to reflect the move to FReM.

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

## 2 Accounting policies

### 2.1 Contributions receivable

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

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

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

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

### 2.2 Transfers in and out

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

### 2.3 Other income

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

### 2.4 Current service cost

The current service cost is the increase in the present value of the scheme liabilities arising from current member's service in the current period and is recognised in the Revenue Account. The cost is based on a real discount rate of 2.8% real.

### 2.5 *Past service costs*

Past service costs are increases in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

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

### 2.6 *Interest on scheme liabilities*

The interest cost is the increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement and is recognised in the Revenue Account. The interest cost is based on a real discount rate of 2.8%.

### 2.7 *Other payments*

Other payments are accounted for on an accruals basis.

### 2.8 *Scheme liability*

Provision is made for liabilities to pay pensions and other benefits 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 2.8%.

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.

### 2.9 *Pension benefits payable*

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

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

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

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

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

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

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

### 2.12 *Injury benefits*

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

### 2.13 Lump sums payable on death in service

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

### 2.14 Actuarial gains/losses

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

### 2.15 Additional voluntary contributions

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

## 3 Contributions receivable

	<b>Year ended 31 March 2006 £</b>	Year ended 31 March 2005 £
Employers' Contributions	<b>53,723</b>	54,199
Employees' Contributions	<b>29,160</b>	29,392
	<b>82,883</b>	83,591

## 4 Transfers in

Transfers in from other schemes	<b>2,280</b>	2,570
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## 5 Other income

Grant-in-Aid from the Northern Ireland Office	<b>52,377</b>	38,880
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## 6 Increase in scheme liabilities

Current service cost	<b>121,401</b>	105,030
Past service cost – enhancements	<b>9,250</b>	10,920
Transfers in	<b>2,280</b>	2,570
	<b>132,931</b>	118,520

## 7 Interest on scheme liabilities

Interest charge for year	<b>212,280</b>	208,210
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## 8 Administration fees and expenses

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

**9 Debtors**

	<b>Year ended 31 March 2006 £ 000</b>	Year ended 31 March 2005 £000
<i>9a Analysis by type</i>		
Pension contribution due from employer	<b>2,912</b>	2,297
Pension overpayments	<b>308</b>	117
Amounts due from PSNI main accounts	<b>70</b>	152
Other debtors	<b>3</b>	0
	<b>3,293</b>	2,566

*9b Intra-Government balances*

	<b>Amounts falling due within one year</b>	
	<b>£000</b>	£000
Balances with other central government bodies	<b>2,982</b>	2,449
Balance with local authorities	<b>0</b>	0
Balances with NHS Trusts	<b>0</b>	0
Balances with public corporations and trading funds	<b>0</b>	0
Balances with bodies external to government	<b>311</b>	117
At 31 March	<b>3,293</b>	2,566

**10 Creditors due within one year***10a Analysis by type*

	<b>£000</b>	£000
Amount due to PSNI main accounts	<b>3,223</b>	2,413
HM Revenue & Customs	<b>70</b>	152
	<b>3,293</b>	2,565

*10b Intra-Government balances*

	<b>Amounts falling due within one year</b>	
	<b>£000</b>	£000
Balances with other central government bodies	<b>3,293</b>	2,413
Balance with local authorities	<b>0</b>	0
Balances with NHS Trusts	<b>0</b>	0
Balances with public corporations and trading funds	<b>0</b>	0
Balances with bodies external to government	<b>0</b>	152
At 31 March	<b>3,293</b>	2,565

## 11 Provision for Pension Liability

The PSNI Police Pension Scheme is an unfunded defined benefit scheme. A full actuarial valuation was carried out as at 31 March 2006 by the Government Actuary Department. The major assumptions used by the Actuary were

	<b>Year ended 31 March 2006 £</b>	Year ended 31 March 2005 £	Year ended 31 March 2004 £
Rate of inflation	2.5%	2.5%	2.9%
Rate of increase in salaries	4.0%	4.0%	4.4%
Rate of increase in pensions	2.5%	2.5%	2.9%
Rate for discounting scheme liabilities	5.4%	6.1%	6.5%

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

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

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

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

### 11.1 Analysis of movement in scheme liability

	<b>Year ended 31 March 2006 £000</b>	Year ended 31 March 2005 £000
<b>Scheme liability at 1 April</b>	<b>(3,472,080)</b>	(3,206,434)
Pension payment (see note 11.2)	<b>137,541</b>	125,041
Current service cost	<b>(121,401)</b>	(105,030)
Interest on pension scheme liability	<b>(212,280)</b> <b>(333,681)</b>	(208,210) (313,240)
Past service cost	<b>(9,250)</b>	(10,920)
Transfers in	<b>(2,280)</b> <b>(11,530)</b>	(2,570) (13,490)
Actuarial loss (see note 11.3)	<b>(477,150)</b>	(63,957)
<b>Scheme liability at 31 March</b>	<b>(4,156,900)</b>	(3,472,080)

During the year ended 31 March 2006, employee contributions represented an average of 11% of pensionable pay. Employer contributions represented an average of 20.25% of pensionable pay.

### 11.2 Analysis of pension payments

	<b>Year ended 31 March 2006 £000</b>	Year ended 31 March 2005 £000
Pension payments	<b>102,471</b>	91,651
Gratuities/Commutations	<b>34,720</b>	33,290
Payments to and on account of leavers	<b>350</b>	100
	<b><u>137,541</u></b>	<u>125,041</u>

### 11.3 Analysis of actuarial loss

	<b>£000</b>	£000
Experience gains and losses arising on pension liabilities	<b>(6,350)</b>	(5,630)
Changes in assumptions underlying the present value of the pension liabilities	<b>(9,440)</b>	(808,160)
Adjustments to pension liabilities	11.4 <b>(461,360)</b>	749,833
Total actuarial loss	<b><u>(477,150)</u></b>	<u>(63,957)</u>

### 11.4 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.

## 12 Related party transactions

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

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

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

### 13 Financial instruments

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

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

### 14 Losses and special payments

During the year, there were no recorded losses or special payments (2004-2005: four cases of cash losses totalling £1,167).

### 15 Additional voluntary contributions

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

The aggregate amounts of AVC investments are as follows

	<b>Year ended 31 March 2006 £000</b>	Year ended 31 March 2005 £000
<b>Movements in the year</b>		
Balance at 1 April	<b>836</b>	746
New investments	<b>85</b>	109
Sale of investments to provide pension benefits	<b>(27)</b>	(69)
Changes in market value of investments	<b>119</b>	50
Balance at 31 March	<b>1,013</b>	836
Contributions received to provide life cover	<b>0</b>	0
Benefits paid on death	<b>0</b>	0
	<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.



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DG Ref: D85702, D85707, D85729, D85703 7434RD

Printed in the UK for The Stationery Office Limited  
on behalf of the Controller of Her Majesty's Stationery Office  
04/07

Published by TSO (The Stationery Office) and available from:

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ISBN 978-0-10-328723-2



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