

CIPFA

POLICE AUTHORITY SUMMARY FINANCIAL STATEMENTS

**Guidance Notes for
Practitioners to help meet
the information needs of
stakeholders**

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Guidance Notes for Practitioners

FOREWORD - by Richard Tettenborn, Chairman, CIPFA Police Panel

The Police Panel would like to express their gratitude to Richard Croucher, Head of Financial Services at Hampshire Constabulary Police Headquarters, whose dissertation for a Masters Degree at Glamorgan University was passed with distinction and formed the basis of this publication. Richard subsequently summarised his dissertation to produce the guidance as it now appears. The Panel would also like to acknowledge the assistance of the members of the Publications Group in connection with this publication.

INTRODUCTION

1. This guidance on summary financial statements (SFS) is aimed at helping practitioners derive the benefits of SFS as well as satisfy the SFS financial reporting criteria set out by the Audit Commission in the Police Use of Resources Evaluation (PURE).
2. Formal academic research was undertaken during 2006/07 with the assistance and support of a CIPFA Police Panel Working Group that included membership from CIPFA, the Police Authority Treasurers Society and the Audit Commission. The research reviews existing relevant academic research and undertakes primary empirical research to identify the potential users of police SFS and their information needs. All the results of the research have been subject to statistical analysis and verification to ensure, as far as possible, their validity.
3. The guidance does not seek to produce a pro forma template for authorities to complete as it is recognised that authorities should have the flexibility to produce publications that address their local needs and complement their own communication strategy.
4. The onus is on authorities to produce SFS that engage stakeholders sufficiently to generate the feedback that is necessary to evolve SFS. Repetition over time of the research and feedback on SFS produced in accordance with the guidance will help to identify further improvements and trends over time. The research focused on police authorities in England and Wales but the methodology used and findings may be of interest to other police and local authorities.

REASONS FOR PRODUCING SUMMARY FINANCIAL STATEMENTS

5. A survey of Force Directors of Finance (or equivalent) in England and Wales found that 12 authorities already publish SFS and at least a further 16 are likely to publish SFS in the near future. Therefore, at least 28 (65%) either publish or intend to publish SFS. There is no statutory requirement to produce SFS and, prior to this guidance, no directly relevant guidance exists. The drive for SFS comes from the benefits derivable.

6. There is no doubt that many different interested parties have found that the annual statement of accounts satisfies legal and technical requirements, but does not clearly communicate or account for authorities' financial positions, especially to non-technical readers. The changes to published accounts brought about by the 2006 Statement of Recommended Practice (SORP)¹ may have exacerbated the problem further for non-technical readers.
7. Interested parties have expressed a desire to produce more understandable and user-friendly financial statements. The Audit Commission and HMIC recognise the need for more user-friendly financial statements in order to bridge the accountability gap. This has resulted in the inclusion of two requirements within the financial reporting module of PURE that relate to the production of summary financial information. These are:

“The authority can demonstrate that it is meeting the needs of a range of stakeholders in relation to the publication of summary accounts or an annual report”²

“The authority publishes summary accounts that meet the needs of stakeholders”²

8. The publication of SFS will, under the current PURE arrangements, assist with the attainment of an improved rating for financial reporting, however, the motivation for producing SFS should be the desire to realise the potential benefits rather than simply to improve a PURE rating. It should be noted that PURE requires the authority to demonstrate that the needs of a range of stakeholders are met by SFS. The research identifies potential stakeholders and their information needs. Therefore, compliance with the substance of this guidance will assist in demonstrating that the publication of SFS attempts to meet the identified needs of a range of stakeholders. The guidance will also assist in reducing unnecessary duplication as the views gathered from stakeholders such as the Home Office and Audit Commission will prevent the need for all authorities to contact these stakeholders individually.
9. Previous research has concluded that the production of publications by any organisation provides an opportunity for that organisation to improve communication with its stakeholders and to improve its corporate image. Police authorities have a particular need to improve communication with stakeholders and to improve public confidence in them as stakeholders are not only customers, but are also integral to the achievement of the authorities' aims³.
10. The police service faces increasing pressure on the resources available. A joint report by the Association of Police Authorities and Association of Chief Police Officers⁴ identifies a potential funding gap, between resources needed and receivable, of £966m by 2010/11. SFS may assist in making stakeholders aware of the competing demands on resources and how the finite resources are deployed to meet them.

11. Consultation with community focus groups found evidence that greater communication with stakeholders may improve the stakeholders' perception of the value for money provided by the authority and consequently lead to greater support for enhanced resources. This is of particular note, given HM Government's intention to provide greater funding to community groups for distribution to meet local needs. Community groups may be more inclined to dedicate more funding to community safety if they can see that the existing resources are being used efficiently and effectively. Understandable, user-friendly SFS may help to explain to stakeholders in clear terms what the increases in funding received by police authorities have been used for, especially as some investments such as counter-terrorism and management of police information may not be visible to stakeholders.

POTENTIAL USERS OF SUMMARY FINANCIAL STATEMENTS

12. A review of relevant previous academic research and guidance from professional bodies identified a list of potential user groups for police SFS, as shown in table 1.

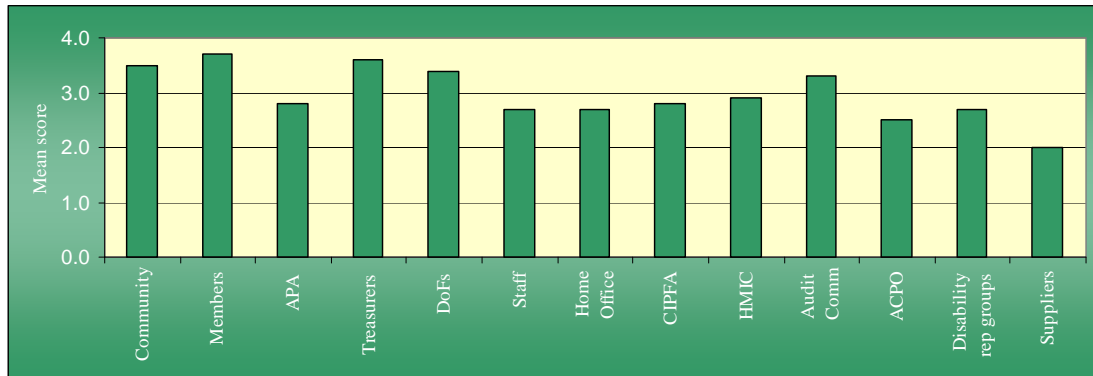
Table 1 - Identification of police SFS users

User Groups	Police Authority Equivalents
Citizens	Community served
Representatives	Police Authority Members Association of Police Authorities
Legislatures and oversight groups	Home Office CIPFA HMIC Audit Commission Association of Chief Police Officers
Creditors	Suppliers
Senior Managers	Treasurer Directors of Finance
Other staff	Officers and staff
Disability representative groups	Disability representative groups

13. Questionnaires were sent to all police authorities, Treasurers and Directors of Finance (or equivalent) to ask them to review the list of potential users and rate the importance of the various user groups. The list of user groups was verified and no further user groups added.
14. The research found that the most important user groups in the view of Members, Treasurers and DoFs are Members, the community, Treasurers, Directors of Finance and the Audit Commission. These were considered to be the most important user groups due to the gap to the next most important user group and because these top 5 user groups have a mean importance greater than 3 (fairly important) with all other user groups having a lower mean.

15. Chart 1 shows the relative importance of user groups.

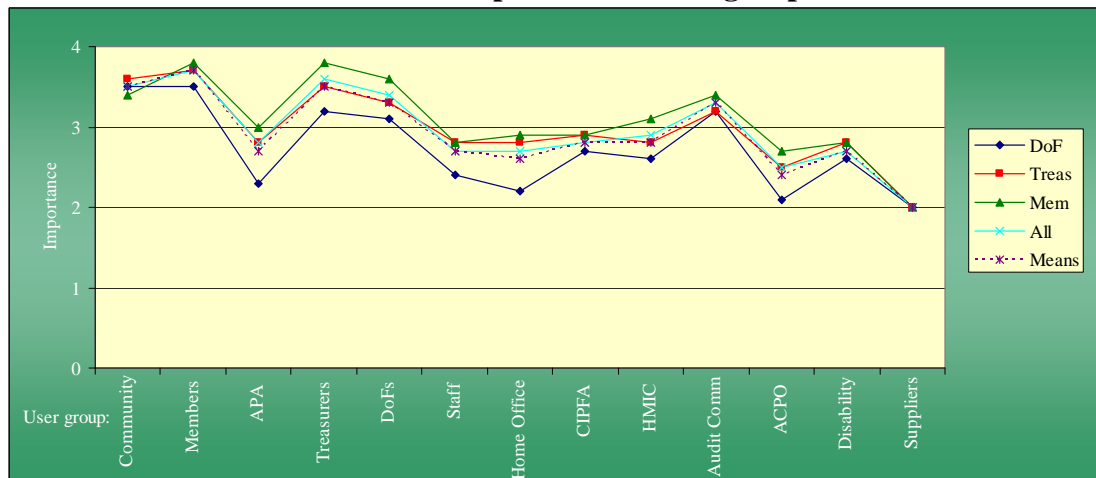
Chart 1 – The relative importance of user groups



Key: 1 = very unimportant, 2 = fairly unimportant, 3 = fairly important, 4 = very important

16. Chart 2 displays the mean ranking attributed to each user group by Directors of Finance, Treasurers and Members. It also shows the mean of combining all responses from the three user groups surveyed and a “mean of means” which uses the mean of each group surveyed to calculate an overall mean. The chart demonstrates the high correlation of the ranking of the relative importance of user groups. This provides assurance that the most important user groups have been identified.

Chart 2 – Line chart of mean importance of user groups



CONTENT OF SUMMARY FINANCIAL STATEMENTS

17. The research identified that the primary purpose of public sector financial reporting is to assist with discharging accountability. This supports the inclusion of the references to SFS under the heading of “promoting accountability” by the Audit Commission and HMIC. The potential contents of SFS were established by reviewing previous relevant research, legislation, statutory guidance and best practice.

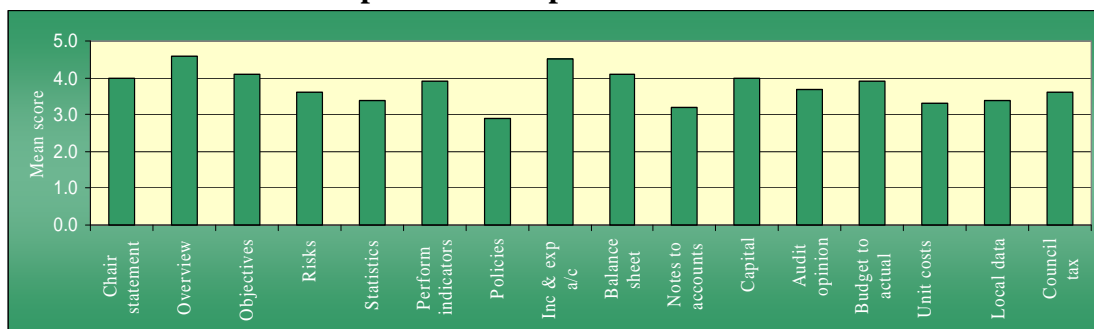
18. The content of SFS produced by the 12 police authorities that already produce SFS and 28 other local authorities producing SFS were analyzed. Ten authorities were contacted to discuss their reasons for choosing the published content. It was clear from the structured interviews that authorities had largely produced SFS based upon their full financial statement content and/or the content of other SFS already published. Very little research or consultation had been undertaken on the content. No authorities had received feedback from readers on the content of their SFS. Table 2 lists the potential information elements identified.

Table 2 - Potential contents of SFS

	Element	Reason for inclusion
1	Chair's statement	Full financial statements Private sector research
2	Overview of the financial year	Full financial statements Private sector research
3	Authority objectives	Corporate governance Full financial statements
4	Risks to the authority	Corporate governance Full financial statements
5	Statistical profile data (e.g. population, area sq. miles)	Full financial statements
6	Key performance indicators (e.g. crime & detection data)	Private sector research Performance indicators
7	Accounting policies & principles	Full financial statements
8	Summary income and expenditure	Full financial statements Private sector research
9	Summary balance sheet	Full financial statements Private sector research
10	Notes to the accounts giving detailed explanations	Full financial statements
11	Capital expenditure and financing	Full financial statements
12	Audit opinion	Accountability through audit opinion Full financial statements
13	Comparison of budget to actual costs	Performance indicators
14	Unit costs (e.g. cost per burglary)	Efficiency and effectiveness
15	Data at a local level rather than forcewide	Efficiency and effectiveness
16	Comparison of council tax precept to most similar forces	Efficiency and effectiveness

19. Questionnaires were sent to samples of all the user groups identified in table 1 to ask them to rate the relative importance of including each of the information elements identified in table 2. The questionnaire also included comments boxes to add any additional elements or clarification. The pilot testing of questionnaires and the inclusion of comments boxes helps to ensure that the elements included are clear and exhaustive.
20. The research indicated that the most difficult user group to gather views from is the community. Research showed that the most effective manner to gather views from the community user group was to use independently facilitated focus groups⁵. Focus groups enable contributors to discuss, clarify and develop points.
21. Previous research had found that an individual's personal information needs may be zero but individuals acting as a representative or within a group do have information needs. A medium sized police authority permitted research to be undertaken at a consultation exercise. The consultation was run by a professional independent facilitator. The facilitator invited 50 members of the community to the event, who represented the diverse community served, including "hard to hear" groups. 42 people attended the event and 41 completed the questionnaire at the end of the session on SFS.
22. A total of 210 responses were received from the various stakeholders to the questionnaire. The responses were statistically analysed for correlation, non-response bias and for outliers to identify potential misunderstandings. The statistical analysis supported the validity of the data gathered.
23. The responses were analysed in a number of ways to identify the most important information elements for inclusion within SFS. Analysis included looking at all responses weighted equally, all user group means weighted equally, the most important user groups weighted equally, the most important user groups weighted in proportion to their relative importance and all user groups weighted in proportion to their relative importance. All methods of analysis indicated similar results. Thus the needs of the most important stakeholders can be met at that same time as meeting the needs of all stakeholders due to the lack of conflict.
24. Chart 3 shows the relative preference of the information elements reviewed.

Chart 3 – The relative preference of potential content



25. The results indicate that the most important elements to include are:

- some income and expenditure information, such as the net cost of services
- a financial overview
- some balance sheet figures, such as long term assets and net current assets
- capital expenditure and financing
- a comparison of budgeted to actual expenditure.

It is recommended that these elements are included.

26. There are some anomalies within the results from various user groups that warrant additional scrutiny. Community rated the importance of performance information highly and the importance of the balance sheet relatively lowly. Research suggests that the discharging of accountability cannot be discharged through financial information alone and there is a tendency for financially minded people to over-focus on financial information which could undermine accountability. The qualitative feedback from the community focus groups found that the inclusion of performance indicators was highly desired as it helps to give context to the financial position. Equally the community did not like or understand the balance sheets, particularly the FRS17 pension reserve. It is therefore recommended that summary performance information should be included to give context for external users and that a short reference to the balance sheet could be made in a narrative form. This may also exclude items that may confuse readers such as the FRS17 pension reserve, for example, by declaring the value of total assets less current liabilities rather than a negative total equity.
27. The summary financial statements will not be subject to audit but research indicated that an unqualified audit opinion on the full financial statements and compliance with independently set standards (the SORP) may assist with discharging accountability. Authorities should include small references to these elements.

PRESENTATION

28. The community focus groups found that the 7 existing police SFS they were provided with were not user-friendly or understandable. It was interesting to note that the financial content of these SFS is similar to the most preferred elements identified in the research above. Therefore, it is possible to conclude that the contextual performance information and the manner of presentation are of high importance in order to generate additional readership and feedback.
29. The community focus groups found some SFS too long and one shorter SFS too cluttered. Research indicates that there is a socially optimum size for publications which the community groups felt should be approximately 4 pages of uncluttered A4. All information should be included in a summarised format. For example, it is not necessary to produce the whole income and expenditure account but the split of expenditure between domains could be shown on a pie chart.

30. The community focus groups said that the use of colour, charts and images would help to improve user-friendliness and understanding, particularly for non-technical readers. This concurs with related previous academic research. There is evidence to suggest that colour charts have more impact and are more easily understandable compared to the traditional tables of figures normally used. Images of people can help to humanise an impersonal document. Pie charts were cited by the community as a favoured presentation option but there was some concern from the Working Group that pie charts may be attractive but may not be correctly interpreted. It is recommended that pie charts should be used, but should be limited to four sectors to improve clarity and reduce the chance of misinterpretation.
31. It is important to recognise the difference between good presentation and “spin”. The research identified concerns that charts can be used to distort performance. There was also scepticism from some members of the community that authorities would publish charts or performance information that was most favourable. It is recommended that police authorities do not distort or abuse charts and include the most relevant performance information on a consistent basis.
32. Consultation on the medium of communication found overwhelming support from community focus groups and relevant research for publication via the internet with a small number of printed versions available for distribution from local information points, police stations and at public meetings. The internet benefits included lower cost, quicker responsiveness and the ability to add links to allow users to get more information if required. For example, internet publishing could allow SFS to be published when the full accounts have been approved and add the reference to the audit opinion at a later date when it is received.
33. The disability friendly publishing guidance identified advises publishing text in a Sans Serif font size 12 and ensuring that the text contrasts with the background. Text should be set horizontally and not set around illustrations. Larger print, Braille, recorded speech and different language versions should be available on request

SUMMARY

34. Authorities must produce SFS that engage readers in order to reap the potential benefits that exist. The content should include references to relevant income and expenditure information of use to readers, financial overview, some balance sheet figures, capital, budget to actual and performance information to meet the needs of stakeholders. References should be concise and should avoid figures that may cause confusion such as the income and expenditure account deficit and the FRS17 pension liability. The recommended size of SFS is approximately four A4 pages.
35. SFS should contain contextual performance information to enable users to take a view of financial performance. For example, users may be more satisfied with a Force that performs well but has a slight overspend than a Force that performs poorly but has an underspend.

36. SFS should be presented in a user-friendly manner using uncluttered images, charts, colour and narrative as opposed to tables of figures. The presentation of information is of high importance in order to generate the readership and evolutionary feedback desired. Different formats, such as Braille, should be available on request.

FURTHER INFORMATION

37. Further information on the research undertaken, including academic references, and the methodology used can be obtained from Richard Croucher at Hampshire Constabulary (email: richard.croucher@hampshire.pnn.police.uk).

REFERENCES

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2. *Police Use of Resources Evaluation (PURE) for Police Authorities and Forces*, Audit Commission (2006).
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4. *Sustainable Policing*, London, Association of Police Authorities and Association of Chief Police Officers (2006).
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