

Police sector audit committee briefing

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This sector briefing is one of the ways that we see as supporting you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the police sector and the audits that we undertake.

The public sector audit specialists in EY's national Government and Public Sector (GPS) team have extensive public sector knowledge which is supported by the wider expertise across EY's UK and international business. This briefing reflects this, bringing together not only

technical issues relevant to the police sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing, as well as some examples of areas where EY can provide support to Police Services.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please do contact your local engagement team.



Government and economic news

EY Item Club forecast

In its latest quarterly forecast (Winter) the EY Item Club highlights that what it terms the UK consumer's 'holiday' from inflation and austerity in 2015 is expected to continue well into 2016, aided by the sharp fall in oil and other commodity prices, and the Chancellor's change of heart on working tax credits.

Whilst the global situation is clearly fragile, the UK is seen to be well placed to ride out the storms. Growth is expected to increase from the revised 2.2% in 2015 to 2.6% this year, being supported by low inflation and interest rates. The CPI is forecast to increase by just 0.7% and they do not expect the Bank of England Monetary Policy Committee to increase bank rate until late in the year.

Looking further forward, the forecast is for inflation and austerity to return, with GDP growth of 2.3% in 2017 and 2.2% in 2018 and consumer spending growth dropping from 2.8% in 2016 of 2.1% in 2017 and 1.7% in 2018. Highlighted as impacting on this are the increasing taxes and levies on consumers and companies, and the roll-out of Universal Credit (which will claw back this Autumn's concessions to low earners). Inflation is expected to increase to 1.8% by 2018, remaining below the MPC target until 2019.

Continuing uncertainty over the EU Referendum could potentially hit business investment this year, as businesses wait to see the result, but momentum in the UK and other economies is seen as supporting capital spending this year.

Institute for Fiscal Studies releases study on funding of the English and Welsh police service.

An Institute for Fiscal Studies (IFS) study has identified the growing importance of locally raised precepts to police forces in England and Wales. Highlighting this change the IFS noted that only one sixth of all police spending was financed by precept revenue in 2000-01 whereas by 2014-15 this had risen to one third.

The IFS also highlighted the fact that whilst cuts to central government grants had been applied uniformly across police forces the impact was felt disproportionately across a number of forces where central government income made up a higher proportion of respective revenues.

Taking two regional forces to emphasise this point the IFS noted that Surrey Police, which received 54% of its revenue from grants in 2010-11, saw revenue fall by 10% between 2010-11 and 2014-15. On the other hand Northumbria Police saw revenues fall by almost twice as much as Surrey Police as it received 88% of its revenue from central government grants in 2010-11.

The full report is available at <http://www.ifs.org.uk/uploads/publications/bns/BN179.pdf>, and the Public Finance commentary can be accessed at <http://www.publicfinance.co.uk/news/2015/11/police-forces-increasingly-reliant-precept-funds-ifs-finds>



Government and economic news

Blue light integration proposals

Plans by the Home Office for joint governance of Police and Fire services will lead to technical accounting problems experts have warned. The Home Office had issued a consultation called 'Enabling closer working between the Emergency Services' on the proposals and this formally closed on 23 October 2015.

Under the proposed changes Police and Crime Commissioner's (PCCs) could also be responsible for overseeing the governance of Fire and rescue services. The consultation highlighted two potential working arrangements.

The first of these would see both organisations remain distinct organisations but both being governed by a PCC.

The second option is the so-called 'single employer model'. Under this proposal a chief officer would sit below the PCC and would be responsible for employing all police and fire personnel. Questions have been raised around how the precept would be accounted for within this model especially as there would effectively be two precepts within a single organisation and a single budget. Some have also questioned the need for two separate precepts in this case rather than having one precept for justice.

There is also a push to include more joint-working with NHS ambulance services although at this stage the focus has been on Police and Fire bodies.

Further information can be found at <https://www.gov.uk/government/consultations/enabling-closer-working-between-the-emergency-services> and the Public Finance commentary can be accessed at <http://www.publicfinance.co.uk/news/2015/11/precept-questions-over-blue-light-integration-plans>

Police Targets Review Published

The Home Secretary has commissioned a review of the use of targets in policing. The review obtained responses from more than 6,000 police officers and staff as well as holding focus groups with Police and Crime Commissioners (PCCs). It has provided a number of recommendations around the use of targets in policing. It also identified some officers and staff who still believed that hard targets existed across a number of key areas even though these had been abolished back in 2010.

Two of the key recommendations coming out of the review include:

- ▶ PCCs should develop a more sophisticated dialogue with the public on what they consider 'success' to look like; and to consider the potential negative impact of setting numerical targets in their police and crime plans.
- ▶ The Home Office should review the requirement for forces to submit victim satisfaction data as part of the annual data return; and consider taking back ownership of the National Standard for Incident Recording (NSIR).

Full details of the review and the recommendations can be accessed via the following link

<https://www.gov.uk/government/news/police-targets-review-published>



Government and economic news

Provisional Police Grant Report 2016-17

The Home Office announced in December 2016 the provisional police grant settlement for 2016-17. As in previous years the Home Secretary has continued to apply damping to the formula to ensure that each individual force will receive the same percentage reduction in the totality of formula funding. Funding for local policing bodies from the Home Secretary includes

- ▶ Home Office Police Core Settlement (Police Main Grant)
- ▶ DCLG formula funding (as a result of the Government's decision to fund local policing bodies outside of the business rates retention scheme)
- ▶ Legacy Council Tax grants (for those local policing bodies which froze or reduced precepts in the years from 2011/12 to 2015/16) and LCTS funding

The report does not cover all sources of police funding, specifically omitting police grants for capital purposes and for the safeguarding of national security, as well as council tax freeze grant paid to the Common Council of the City of London and the Greater London Authority.

In line with previous years, the Police Main Grant is distributed between forces based on the proportions established by the needs-based Police Allocation Formula used in 2013/14; this formula is also used to calculate allocations of DCLG Formula Funding. The formula takes into account the different activities undertaken by police, using socio-economic and demographic indicators to estimate the level of each activity which will be undertaken by each force. A basic amount is calculated per resident, and this amount is then topped-up for the identified key areas of crime, incidents, fear of crime, and population sparsity (to take account of the specific policing needs of rural areas). A basic amount for special events is also calculated. The total of these is then multiplied by an area cost adjustment factor which takes into account costs which may be higher or lower than the national average.

The basis for allocating legacy council tax grants is also consistent with previous years.

Provisional individual force allocations for 2016-17 as split between the Police Main Grant, Council Tax Freeze Grant and DCLG Funding allocation can be viewed via the following link

<https://www.gov.uk/government/publications/provisional-police-grant-report-2016-to-2017>



Government and economic news

Response to flooding

The Bellwin scheme, which compensates eligible authorities for exceptional costs incurred in incidents like flooding, has been opened for councils affected by floods resulting from storms Desmond and Eva.

Authorities are eligible for costs under the scheme when they have spent more than 0.2% of their calculated annual revenue budgets on works.

Bellwin allows eligible authorities to apply to have 100% of their costs above threshold reimbursed by the government.

Eligible authorities include:

- ▶ Councils
- ▶ Policing bodies
- ▶ Fire and rescue authorities
- ▶ National Park authorities

For more information see <https://www.gov.uk/government/news/north-west-england-floods-2015-government-response>

Public Sector Exit Payment Recovery Regulations

The government is consulting on draft regulations that will give effect to the powers enacted in the Small Business, Enterprise and Employment Act 2015. These regulations allow for the recovery of exit payments following the return of a high earner to the public sector within a year of their initial departure.

Changes made to the policy since the previous consultation include:

- ▶ The minimum earnings threshold for individuals subject to the recovery provisions has been lowered from £100,000 to £80,000
- ▶ The policy has been extended to include qualifying returns to any part of the public sector, rather than only to the same part of the public sector
- ▶ Introduce a reduction over time for returns at any point up to 12 months from the initial exit
- ▶ Recovery will now include employer funded pension 'top up' payments made under the Local Government Pension Scheme.

Public sector organisations that are in scope and those that are proposed to be exempt are included in the draft regulations.

Following this consultation, the regulations will go through Parliamentary scrutiny, and the intention is that the policy will take effect from April 2016.

Read more at <https://www.gov.uk/government/news/government-calls-time-on-public-sector-parachute-payments-for-boomerang-bosses>



Regulation news

Honour based violence, forced-marriage and female genital mutilation

HMIC recently published an important report entitled “The depths of dishonour: hidden voices and shameful cries – An inspection of the police response to honour-based violence, forced marriage and female genital mutilation”.

The report assessed the ability of police forces in England and Wales to address the range of crimes associated with honour based violence (HBV). HBV is a term used to refer to a collection of practices that are typically used to control the behaviours of girls and women within families to protect social or cultural beliefs. Specific acts categorised within HBV include forced-marriage and female genital mutilation.

Whilst acknowledging that there were well trained officers throughout the country, the report highlighted the general lack of such officers and also the lack of an approach to dealing with such crimes. Victims require an improved service due to the unique difficulties they face as both a result of the crime and in reporting such offences. The report also highlighted the importance of engaging with community groups in helping them to deal with such crimes.

For access to the report and the study see the attached link

<http://www.justiceinspectorates.gov.uk/hmic/news/news-feed/every-police-force-must-improve-its-understanding-of-hbv/>

Regional Organised Crime Units

HMIC have published their first report into the 10 Regional Organised Crime Units (ROCU) which operate across England and Wales. Key findings from the report include:

- ▶ At present there would appear to be an inconsistent approach to ROCUs across the country with some developing very effectively and others in a more piecemeal fashion
- ▶ Not all ROCUs are currently providing the 13 capabilities which is the minimum requirement for ROCUs
- ▶ ROCU's need to be more fully integrated with the National Crime Agency and National Counter-terrorism units

As a result of its report HMIC has noted 11 recommendations for ROCUs to consider. These recommendations have implementation dates that range from 31 March 2016 through to 30 June 2016. The two recommendations with the shortest deadline apply to both ROCUs and the Home Office. By 1 April 2016 all ROCUs should ensure that all 13 capabilities are provided. By 31 March 2016 the Home Office is required to work with the ROCU executive board and create a three to five year funding settlement in-line with their assessment of the viability and benefits of ROCUs.

The Full report including the recommendations can be found by accessing the following link

<http://www.justiceinspectorates.gov.uk/hmic/news/news-feed/regional-organised-crime-units-should-build-on-their-strong-foundations/>



Accounting, auditing and governance

Faster Close update

Since our think piece 'accelerating your financial close arrangements' in the summer – we have worked together with our clients to successfully deliver another round of financial statements audits.

We have seen again a number of our clients achieve the earlier 31 July deadline – three years ahead of schedule. Nationally, 5% of opinions were issued by 31 July for 2014-15.

At other clients, we have seen a shortening of the actual audit window as both preparers and auditors refine the operational timetable in readiness for 2017-18 audits.

The think piece set out some areas where preparers can hone their closedown plans and work with their auditors in the run up to the revised timetable. Discussions with clients around the country are showing encouraging signs that finance teams are already grasping the issue and working on solutions to enable them to prepare and submit draft financial statements and supporting working papers to the auditor by 31 May. Twenty-one percent of our clients have committed to this earlier target for the 2015-16 audits.

On our side, as a firm, we are reviewing how we can streamline our audit approach, to provide maximum ability to undertake early substantive testing across a Month 8-10 window, thereby reducing some pressure in the key June – July audit window. This may not work in all cases, because of the budget setting process, so other ways of streamlining the audit approach are also being developed.

In addition, we are addressing the resourcing challenge that this presents to audit firms, with a significant recruitment campaign to enable us to continue to deliver exceptional client service across the entire sector. This will require us to phase our audits, at both an interim and final audit stage to allow us greater flexibility in resource deployment and audit clients should be prepared to have bigger audit teams on site for shorter periods of time, as running all audits concurrently is not likely to be possible.

A key issue arising from our recent discussions is dealing with the governance processes at councils for receiving the auditor's report and approving the accounts. There are a wide range of approval processes in place at councils as a result of custom and practice over the years, and some are more streamlined than others.

Councils will need to review their governance processes for approving the accounts with a view to making it as simple as possible to ensure the maximum amount of the nine week window for audit can be used for audit procedures. Under the Account and Audit Regulations 2015, it is only the responsibility of the committee 'charged with governance' to approve the financial statements ahead of final certification by the s151 officer. Adding additional layers of approval through to Cabinet or Full Council slows down the governance process and potentially adds to the audit burden.

For 2014-15 audits, 8% of our clients had Audit Committee meetings scheduled before September for approval of the financial statements. For 2015-16, in several instances Audit Committee timetables have not yet been finalised, however, currently 7% of



Accounting, auditing and governance

our client base has already confirmed that their Audit Committee timetable would enable accounts authorisation before September, with 4% scheduled before 31 July 2016.

An effective Audit Committee is one which can appropriately scrutinise the financial statements and the auditor's results report prepared under International Standard on Auditing (UK&I) 260, and challenge officers about accounting policies and estimates in order to be able to approve the financial statements on behalf of the council.

Given the lead time for amending corporate governance processes, officers should review the approval arrangements, and schemes of delegation from Full Council, ensuring that the Audit Committee operates as effectively as possible and to the remit as set out by CIPFA in its guidance 'Audit Committees: practical Guidance for Local Authorities and Police (2013 edition)'.

We are encouraged by the response of our clients to this challenge and the acceptance that it is a joint responsibility to achieve the faster close, and we will continue to work with you as we both prepare for the advanced deadlines.

For further information, please speak to a member of your engagement team.

Value for Money guidance

The Local Audit & Accountability Act 2014 Section 20(1) requires that: 'In auditing the accounts of a relevant authority other than a health service body, a local auditor must, by examination of the accounts and otherwise, be satisfied ... (c) that the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

The Act is implemented through the National Audit Office's 2015 Audit Code of Practice (the Code), which sets out what local auditors are required to do to fulfil their statutory responsibilities under the Act.

Paragraph 3.14 sets out that 'the auditor's work should be designed to provide the auditor with sufficient assurance to enable them to report as appropriate to audited bodies other than health service bodies, providing a conclusion that in all significant respects, the audited body has (or has not) put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period'.

To support the Code, the NAO issues guidance to auditors. This is undertaken by preparing and publishing Auditor Guidance Notes (AGNs) which are publicly available on its website. See <https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>

AGN 03 – Auditors' work on Value for Money Arrangements was published in November 2015 following a consultation period. It confirms the requirement is for auditors to issue a conclusion in respect of the single overall criterion that:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people."



Accounting, auditing and governance

To assist auditors the NAO provide three sub-criteria that are intended to guide auditors in reaching their overall judgement:

- ▶ Informed decision making
- ▶ Sustainable resource deployment
- ▶ Working with partners and other third parties

However, these are not separate and auditors are not required to reach a judgement against each one.

Underpinning these sub-criteria are the proper arrangements, which are aligned to the scope of arrangements that are already required to be put in place and reported on through documents such as the annual governance statement.

Auditors are required to undertake a risk assessment to identify any significant risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.

The Code defines 'significant' as follows: **"a matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects."**

Where such a significant risk is identified, further audit work will be undertaken based on the auditor's professional judgement. If the auditor does not identify any significant risks, there is no requirement to carry out further work.

Full information on all of the above can be found within AGN 03. See <https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>

New arrangements for the exercise of public rights

The Accounts and Audit Regulations 2015 (the Regulations) set out new arrangements for the exercise of public rights from 2015-16 onwards. In respect of principal bodies, paragraph 9(1) requires the responsible financial officer to commence the period for the exercise of public rights and to notify the local auditor of the date on which that period was commenced. This is a change to previous arrangements where the local auditor notified the audited body of the appointed date on or after which local government electors could exercise their rights.

Paragraph 9(2) is clear that the final approval of the statement of accounts by the authority prior to publication cannot take place until after the conclusion of the period for the exercise of public rights. For 2015-16, the thirty working day period for the exercise of public rights must include the first ten working days of July, this means that authorities will not be able to approve their audited accounts or publish before 15 July 2016.

Paragraph 14(1) states that any rights of objection, inspection and questioning of the local auditor conferred by sections 26 and 27 of the Act may only be exercised within a single period of 30 working days. In effect this paragraph brings the period in which an elector can question the auditor into the inspection period, rather than immediately following the inspection period as per the previous regulations. As a result of this, auditors are unable to issue their audit reports until the 30 day period has been concluded.

Read the regulations in full at <http://www.legislation.gov.uk/uksi/2015/234/regulation/2/made>



Key questions for the audit committee

What questions should the Audit Committee ask itself?

Are you aware of the proposed funding allocation for 2016-17 and the impact that this might have for your local force? Have you discussed this with the Chief Constable and the PCC?

Are you aware of the changes in funding mix at your local force as a result of the ongoing reduction in Central Government funding? Have you discussed this with the Chief Constable and the PCC? What are the implications locally of this change in funding?

Given the issues referenced in the HMIC Report 'The Depths of Dishonour: hidden Voices and Shameful Cries' how comfortable are you with the current capability of your local force to deal with such issues?



Find out more

EY Item Club Autumn Forecast

For details of the EY Item Club's latest forecast, see <http://www.ey.com/UK/en/Issues/Business-environment/Financial-markets-and-economy/ITEM---Forecast-headlines-and-projections>

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Faster Close update

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For more information, please contact a member of your engagement team.

Value for Money guidance

Full information on the new guidance can be found within AGN 03. See <https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>

New arrangements for the exercise of public rights

Read the regulations in full at <http://www.legislation.gov.uk/uksi/2015/234/regulation/2/made>

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