

Police Sector briefing

Contents at glance

EY Police Reference Group

Accounting, auditing and governance

Sector and economic news

Regulation news

Find out more

Our Police sector briefing is one of the ways that we will continue to support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation in the police sector for audits that we undertake. The public sector audit specialists who transferred from the Audit Commission form part of EY's national Government and Public Sector (GPS) team. Their extensive public sector knowledge is now supported by the rich resource of 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. In addition to this, we have created a Police Reference Group, of PCC, CC CFOs, Heads of Finance, our Police Engagement Leads and Audit Managers to provide a regular forum to understand and respond to the key governance, accounts and value for money opportunities, issues and challenges you face now and following Stage 2 transfers. We will use this briefing to update the Joint Audit Committee on the key messages from our Reference Group and what we think this means for your role.

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 and Crime Commissioners, Chief Constables and their Joint Audit Committees.

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 audit team.



Building a better
working world

Police Reference Group

EY held its first Police Reference Group on 27 January 2014, a group which will meet on a regular basis. Attendees included; CFOs/Head of Finance/Chief Accountant representatives from PCCs and CCs audited by EY; EY Audit Directors and Audit Managers.

We agreed the purpose of the reference group as:

- ▶ Understanding PCCs and CCs questions, issues and challenges in preparing for Stage 2 transfers.
- ▶ Updating all on EYs approach to audit of accounts and VFM.
- ▶ Ensuring consistency in application and approach.
- ▶ Collecting shared questions and views to discuss with CIPFA, Audit Commission and stakeholder groups.
- ▶ Identify those areas where PCCs, CCs and auditors would welcome further guidance and support.

Our first meeting was a useful and wide ranging discussion focusing on the accounting questions, issues and challenges that will face CFOs and finance teams in preparing PCC and CC financial statements for the 2013/14 and 2014/15 financial years. This reflects both before and after stage 2 transfers. We reflected on the audit of your 2012/13 financial statements and the different approaches used nationally to recognise revenue and assets in either PCC or CC financial statements. We also did this because we are aware CIPFA intend to provide further guidance

to practitioners and preparers of the accounts for 2013/14 and in due course 2014/15 financial year. We agreed that we wanted to engage and share where we can proactively with CIPFA and the Audit Commission what, as practitioners and auditors we see as the key questions to consider in any guidance.

The following key messages were identified as outcomes from the Reference Group discussions:

- ▶ Importance of PCC and CC CFOs and preparers of accounts keeping up-to-date their method statements assessing the balance between control and derivation of economic benefit against applicable accounting standards to determine whether to recognise revenue, assets and contracts in the accounts of the PCC or CC. We agreed that at our next meeting in April 2014, PCCs and CCs would share their proposed method statements to discuss approaches and application of underlying accounting standards.
- ▶ For imminent Stage 2 transfers, the PCC and CC governing documents and scheme of consents are critical in confirming the intended relationship between PCC, CC, what transfers to and where for example CC has flexibility and latitude to act on their own behalf in entering into contracts, use of assets. This will be one key indicator amongst others that guides how PCC and CC prepare accounts in the future. We agreed that audit teams should have an early review of the governing documents to share any observations or concerns.



- ▶ CIPFA guidance could usefully provide more articulation on accounting considerations where local practices across PCCs and CCs do not vary, for example in recognising the cost of police officers. Here for example we felt that there should be clarification on whether there is almost a hierarchy of control, i.e., what is the right balance between the CC having operational direction and control but doing so in accordance with the PCCs strategic policing plan and predetermined limits on workforce numbers and budgets. In addition, that where in vast majority of all of our PCC and CC audits, stage 2 will only see legal transfer of police officer contracts to the CC, does this change in legal form impact at all on practitioners and auditors view on the substance of the arrangements.
- ▶ Practically, PCC and CC CFOs wanted early dialogue with auditors on whether stage 2 transfers had implications for financial systems and processes. For example that in case of police officer contracts transferring to the CC, should there be a separate payroll system.
- ▶ Both PCC, CC CFOs and auditors, we are keen and intend to engage with CIPFA on the key questions, issues and approaches to consider for any updated guidance informing both 2013/14 and 2014/15 financial years. EY will be holding a Police final accounts workshop on 28 March 2014 at our EY More London office where we will explore this further alongside other accounts considerations to inform how your PCC and CC finance teams prepare the 2013/14 financial statements.

We intend to hold another Reference Group meeting during April 2014 and then again in September 2014. Either at this or a future meeting, we will extend an invite to Chairs of Joint Audit Committees so that you have an opportunity to share your perspectives on the questions, issues and opportunities we need to be considering from Stage 2 transfers.

In the meantime, we ask Joint Audit Committees to have close engagement and scrutiny to understand how your PCC and CC CFOs see the key risks and challenges, for accounts, governance and value for money from Stage 2 transfers and how they intend to respond. Your EY Engagement Lead and Audit Manager will set our approach and where we see significant audit risks and our areas of focus in your Audit Plans and progress reports.

Accounting, auditing and governance

NAO Police Accountability: landscape review

The NAO's *Police Accountability Landscape Review* was published on the 22 January 2014. The report highlights a number of gaps in the current Home Office accountability framework.

The NAO finds that gaps in this framework could limit the degree of assurance the Home Office can take from the new accountability structure. The gaps identified include; the limited effectiveness of police and crime panels, and HM Inspectorate of Constabulary's lack of authority to carry out routine inspections of PCCs or their offices.

The NAO report finds that the new framework has increased the potential for local tensions between commissioners, chief constables and police and crime panels. The report also raises the issue of a conflict of interest where there is a joint chief finance officer for the commissioner and the force.

The report identifies that those in the sector believe that elected commissioners are potentially better able to hold police forces to account and drive value for money and that there has been a significant increase in engagement with the public under the new framework.

The NAO reports that not all of the requirements of the Police Reform and Social Responsibility Act 2011 are being met in relation to publishing data. This limits the ability to hold commissioners to account. The Home Office and HM Inspectorate of Constabulary are now working together to agree how to provide better information to the public.

We contributed to this review by sharing our approach to the PCC and CC Value for Money conclusion and how we work with and use the work of HMIC and PCCs, CCs internal auditors to minimise duplication in audit and inspection. NAO have made some observations on the auditor's approach to VfM conclusion and we will respond to any developments arising from this, either in any updated Audit Commission guidance or thereafter with the new Code of Audit Practice that is introduced after 2015.

NAO The Criminal Justice System: landscape review

The National Audit Office (NAO) Criminal Justice System report published in March 2014 considers whether or not current reforms are addressing the issues.

This report is in three parts and provides an overview of the operation of the criminal justice system, considering the main challenges to an efficient and effective System and whether current reforms address the issues identified:

- ▶ Management and governance of the criminal justice system
- ▶ Joint working between the agencies involved
- ▶ The handling of information through the System



Key findings included:

- ▶ The system has to deal with wide ranging complex situations which have evolved over time making its management a challenge for government.
- ▶ The reform programme is significant and will take time to implement and embed the required changes to working practices, system developments and cultures.
- ▶ There is a critical need for joint working to ensure all partners work closely at a local and national level to take account of local accountability and performance measurement. This will ensure the required information flows are in place to achieve real efficiencies and cost savings.

Greater business challenges call for Stronger Audit Committees

Audit committees have traditionally been comprised of people with deep finance and accounting expertise, a reflection of the committee's statutory financial control and reporting oversight duties. But, in recent years, the business environment has become more complex and its role has expanded, leading many boards and audit committees to rethink the skills they need.

The audit committee's remit now includes overseeing risk management, compliance and a series of emerging business risks in areas such as bribery, corruption and cybersecurity.

This increased responsibility includes a call by some regulators for 'stronger audit committees' to oversee the regulatory and business risks that organisations face.

Participants surveyed for the EY report, Greater business challenges call for stronger audit committees, identified diversity of culture, roles and experience as the most important elements of an effective audit committee.

Critical skills include:

- ▶ **Financial expertise:** the committee needs a keen understanding of internal controls and experience in disclosure to the investment community.
- ▶ **Accounting and auditing expertise:** one of the most critical audit committee responsibilities is overseeing the internal and external auditors. The committee needs at least one member who has experience working with both functions, and someone who understands accounting rules and how to apply them.
- ▶ **Leadership:** the committee should include someone who has hands-on experience of leading in an operational role within an organisation. In particular, audit committees would benefit from people who have been CEOs and CFOs.
- ▶ **Industry or sector knowledge:** it's important to have members with sector-specific knowledge – including an understanding of the regulatory environment.

[http://www.ey.com/Publication/vwLUAssets/EY-Audit-Committee-Bulletin-Issue-5-October-2013/\\$FILE/EY-Audit-Committee-Bulletin-Issue-5-October-2013.pdf](http://www.ey.com/Publication/vwLUAssets/EY-Audit-Committee-Bulletin-Issue-5-October-2013/$FILE/EY-Audit-Committee-Bulletin-Issue-5-October-2013.pdf)



Sector and economic news

Police Innovation Fund: 16 January 2014

2014/15 Innovation Fund

£50 million for 14/15 is to be made available for which PCCs bid for more money to pay for proposals with the potential to improve policing and make it more efficient, for example for:

1. More collaboration between forces
2. Investment in modern and digital technology
3. Other approached to improve policing and deliver further efficiency

The number of bids and value of the funds awarded varied considerably amongst police forces. 65 of the 115 bids were approved. A full list of forces and the projects which will benefit from Home Office funding this year is shown on www.gov.uk/government/news/home-offices-20-million-reward-for-police-innovation. The Home Office reported back that in a number of cases there were positive ideas with potential to bring about transformation. But further work was needed to understand and articulate the impact of those changes.

PCCs and CCs should look to maximise their chances of receiving more funding for innovative projects. Audit Committees should gain assurance that PCCs and CCs have a robust approach to both identifying projects and bidding for the 14/15 monies and planning ahead for the 15/16 award of the Innovation Fund. The bidding timetable will be announced shortly by the Home Office.

Crime continues to fall

The latest statistics for England and Wales released as part of the latest England and Wales Crime Statistics show that crime is continuing to fall. Key headline messages included:

- ▶ 13% fall in violence
- ▶ 19% reduction in household theft
- ▶ 8% drop in vandalism

Police numbers fall by further 3,488 Officers

The Office for National Statistics produced its latest review of the Police workforce in England and Wales. The Report, published in January 2014, reflected the position regarding the Police workforce in post as at 30 September 2013

Key statistics included:

- ▶ 2.6% reduction in the number of police officers compared to 12 months earlier. In terms of actual numbers this was a reduction of 3,488 officers.
- ▶ 128,351 police officers in post in England and Wales as at 30 September. This was the lowest number since September 2002.
- ▶ 36/43 Police Forces in England and Wales recorded falls in Police Officer numbers compared to both 6 and 12 months previous.



Economic outlook

The ITEM Club, one of the UK's foremost independent economic forecasting groups, sponsored by EY, published its Winter Forecast in January 2014. It recognises that the UK's economic rebound is continuing to exceed expectations with GDP now projected to grow by 2.7% in 2014 followed by 2.4% in 2015.

Although this headline news is positive, the reality is more complex. The current recovery is lopsided in two ways. The first is that it's being driven almost exclusively by consumer spending and housing. Until rising business confidence is matched by a revival in investment and exports, the upturn will be neither balanced nor sustainable.

The second imbalance is that, despite rising employment, real wages are continuing to fall. This gap reflects a number of structural shifts in the workforce, and should close by the start of 2015. But its effect is that consumer spending cannot continue to drive the recovery without triggering a new and unwelcome rebound in household debt.

EY ITEM Club notes: 'this situation poses a dilemma for the Bank of England's Monetary Policy Committee as it gauges when to raise interest rates.

With employment rising but real wages falling, the unemployment rate alone is too blunt a measure. Instead, the MPC must hold interest rates steady until real wages and business investment are rising. Otherwise it risks aborting the recovery before it reaches escape velocity.'



Regulation news

Local Audit and Accountability Act 2014

The Local Audit and Accountability Act 2014, which provides for the abolition of the Audit Commission and repeals the Audit Commission Act 1998, received Royal Assent on 30 January 2014. This Act makes provision for the Audit Commission to officially be wound down in 2015. The effective closure date will be 31 March 2015 and will bring to an end the Commission's 30 year involvement with public sector audit.

A transitional body will manage the current round of supplier contracts when they end in 2016/17 or, if extended, 2018/19. Subsequently, the new framework for public audit will replace the Audit Commission. When the existing contracts have run their course, local bodies will be able to appoint their own auditors, although local audit appointments will be overseen by an Independent Auditor Panel, and collective audit procurement will be enabled. Quality will be overseen by the Financial Reporting Council, as for Companies House audits. The Audit Commission has identified where some of its key functions will be transferred to. These include:

- ▶ The National Fraud Initiative will transfer to the Cabinet Office on 1 April 2015.
- ▶ The National Audit Office will take on the statutory responsibility to produce and maintain the Code of Audit Practice and issue guidance to auditors.

The Commission is still in talks with several government departments to determine where other key areas which it is responsible for such as Value for Money and Counter Fraud will be transferred to.

HMIC's approach to monitoring forces: an overview for the public, forces and local policing bodies

The role of Her Majesty's Inspectorate of Constabulary (HMIC) is to independently assess police forces and policing activity. As such it has been set up as a body which is independent from both the Government and Police.

HMIC have published a report which sets out their 5-stage approach to monitoring police forces:

1. Routine monitoring of all forces.
2. In-depth analysis and monitoring by regional HMI of those forces where routine monitoring identifies problems.
3. Referral to the Crime and Policing Monitoring group if the HMI is concerned that a problem is at risk of not being resolved.
4. Concerns raised publicly by HMIC if the HMI has serious concerns that are not being resolved.
5. Concerns escalated to the Home Secretary in extreme cases, if significant concerns are not being addressed.

The data obtained in the routine monitoring is also available publicly via the Crime and Policing comparator tool and value for money profiles. This enables benchmarking in terms of recorded crime, quality of service, force finances and workforce numbers, as well as budgets.



Find out more

NAO Police Accountability: landscape review

See <http://www.nao.org.uk/report/police-accountability-landscape-review/>

The Criminal Justice landscape review

See the full report at: <http://www.nao.org.uk/report/the-criminal-justice-system-landscape-review/>

Crime continues to fall

Read more at: <http://www.police.uk/news/>

Police numbers fall by further 3,488 officers

Find out more at: <https://www.gov.uk/government/publications/police-workforce-england-and-wales-30-september-2013/police-workforce-england-and-wales-30-september-2013>

Economic outlook

See the full analysis at: <http://www.ey.com/UK/en/Issues/Business-environment/Financial-markets-and-economy/ITEM---Forecast-headlines-and-projections>

Local Audit and Accountability Act 2014

Find out more at: <http://www.audit-commission.gov.uk/2014/01/finish-line-in-sight-for-audit-commission/>

HMIC's approach to monitoring forces: an overview for the public, forces and local policing bodies

For further information: Read the report in full at <http://www.hmic.gov.uk/media/hmic-approach-to-monitoring-2013.pdf>

Make use of the comparator tool accessed via <http://www.hmic.gov.uk/crime-and-policing-comparator/> or the value for money profiles at <http://www.hmic.gov.uk/programmes/value-for-money/value-for-money-profiles/>

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