

Police sector audit committee briefing

Contents at a glance

Government and economic news

**Accounting, auditing and
Governance**

Regulation news

**Key Questions for the Audit
Committee**

Find out more

This sector briefing is one of the ways that we hope to 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, the Police sector and the 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 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 contact your local audit team.



Government and economic news

EY Item Club Summer 2015 forecast

In its latest forecast, the EY Item Club highlights the continuing impact on the UK economy of world events, with those in Greece and China being of particular concern. Despite this, domestic demand remains buoyant and activity has increased since winter. They forecast GDP growth of 2.7% for this year and next, and inflation, as measured by CPI, well below target.

The latest data shows consumer expenditure remaining strong, and set to continue into next year, with the strong pound and weak commodity prices keeping inflation low. With manufacturing 'stuck in the slow lane,' the economy is seen to be becoming increasingly unbalanced. The forecast goes on to predict that interest rates are unlikely to move above 3% until 2019.

Commenting on the Summer Budget, the Club sees the new surplus target as very challenging, meaning a significant increase in household taxes and a massive squeeze on welfare payments. It comments that, if the public sector is to move from heavy deficit into surplus, the private and overseas sectors must move in the opposite direction. As it sees households as being reluctant to move further into deficit, it will be up to companies to increase investment and exports to make the Budget strategy work. Alternatively, to swing the balance of payments and government accounts back into surplus, growth and imports will have to slow down.

Policing by consent is a principle we must all fight for

The Home Secretary, Theresa May, recently gave a speech in which she re-iterated the key principle of policing by consent. Ms May acknowledged that when things have gone wrong in the past and the police have responded with a cover up, the perception from the public has been that they have abused their position of power.

Referring to the oath that all constables swear, the Home Secretary noted that the upholding of fundamental human rights and according respect to all people are key principles underpinned by the concept of policing by consent. Such principles also run through the new Code of Ethics which makes it clear that the model of policing depends upon the co-operation and agreement of the people.

In aiming to achieve this it requires the utmost transparency, integrity and accountability. In terms of accountability and transparency Ms May noted that this has improved in recent years with the introduction of the PEEL assessments by HMIC and the fact that the Office for National Statistics is now responsible for crime statistics. Referring to the ongoing police reforms, the Home Secretary noted that although more work was still required the initial signs were encouraging.



Government and economic news

National Living Wage

In the recent Budget the Chancellor announced that, from April 2016 workers aged over 25 will be entitled to a National Living Wage significantly higher than the current minimum wage of £6.50 which applies to those aged over 21. Those entitled to the 'living wage,' will get £7.20 and that will rise to at least £9 an hour by 2020. This is expected to boost the income of approximately 6 million workers, covering all full and part-time workers, and those in public and private sectors. Whilst the government announced changes in corporation and employment taxes which it said would offset the additional costs to employers, the former will not apply in the public sector, and many comments have been made about the significant impact on employers from bodies such as the Local Government Association and the UK Homecare Association. The EY Item Club (in its Summer Forecast) commented that 'The Chancellor has effectively passed the prime responsibility for supporting low income working people over to employers and this poses a clear risk to hours and employment.'

All bodies will need to carefully consider the impact of the changes on their finances in the short and medium term. The impact is not liable to be limited to the additional employment costs of those employees currently on the minimum wage, but include:

- ▶ Employment costs relating to employees currently earning above minimum wage but below the National Living Wage
- ▶ Pressure on supplier contract prices arising from their increased costs (particularly in relatively low paid sectors such as care)

Whilst the increase is to be phased over a number of years, there will be a potential impact from 2015/16.



Accounting, auditing and governance

The 2016/17 Code Of Practice on Local Authority Accounting in the United Kingdom: Invitation to Comment (ITC)

Each year CIPFA issue various Invitations to Comment (ITCs), setting out the proposed changes to the Code of Practice (the Code) for the following financial year and requests responses to the specific proposals. This year the ITC also requests comments on standards that are not expected to lead to changes within the Code until later years. The ITC this year has a closing date for responses of 9 October 2015.

The main changes proposed in the ITC are set out below:

Highways network asset

This proposal introduces the requirements for the measurement of this asset at Depreciated Replacement Cost (DRC) from 2016/17 onwards. In the ITC, CIPFA/LASAAC proposes, for the first time, that the separately identified items in the Transport Infrastructure Assets Code are classed as one asset for financial reporting purposes. It is proposed that Highways Network Asset is a separate class of asset and will be shown separately in the balance sheet.

This change is fully retrospective and will require:

- ▶ A third balance sheet as at 1.4.2014
- ▶ Fully restated comparatives for 2015/16

The ITC also confirms that an annual condition survey will be required.

As outlined in the June 2015 Audit Committee Briefing, this change will have major implications for highway authorities and non-highway authorities who have material transport infrastructure assets. We have already run a number of successful workshops for accountants and engineers at highway authorities during the summer to discuss how this fundamental change will impact on the accounts closedown and audit. As a result we will be running additional separate events for highway and non-highway authorities going forward.

Review of accounting and reporting by pension funds

This review coincides with the publication of Financial Reports of Pension Schemes: A Statement of Recommended Practice (2015). The ITC:

- ▶ Proposes minor changes to the Fund Account and to the Net Assets Statement to improve presentation and mirror the updated SORP
- ▶ Adapts the reporting requirements of IFRS 13 to include fair value disclosure requirements for pension fund investments in the 2016/17 Code
- ▶ Recognises that under IAS 26, 3 options as to how to disclose the actuarial present value of promised retirement benefits are allowed and seeks views on the option to use
- ▶ Sets out a new recommended disclosure for transaction costs



Accounting, auditing and governance

Narrow scope amendments

These are amendments to International Financial Reporting Standards (IFRS), largely around clarification of individual standards.

The Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015 (English authorities)

The ITC updates the specific references within the Code to reflect these legislative changes. In addition it:

- ▶ Considers that a full interpretation of section 3.1 of the Code will fully meet the requirements to produce a Narrative Report
- ▶ Highlights the additional guidance provided to enable the requirement that the Narrative Report 'must include comment by the authority on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year'

Telling the story: consultation on improving the presentation of local authority financial statements

The financial statements are a vital part of the accountability framework of local authorities. CIPFA/LASAAC considers it vital that the user can relate the information contained within the financial statements to the funding the local authority receives and the promises made about how money will be spent.

Over the past couple of years CIPFA/LASAAC has been developing an approach to both streamline the financial statements and improve accessibility to users. The two publications Financial Statements; A Good Practice Guide for Local Authorities and the updated How to Tell the Story, have both sought to remove clutter from the financial statements and focus on material items.

The next stage was seen to be how to adapt the IFRS based accounts to improve the accessibility of information for the lay user with the benefits and improvements in reporting that IFRS has brought being retained.

The Invitation to Comment (ITC) sets out the recommended proposals for change, seeking views on whether they are considered to be the preferable option. The key strands of the proposal are that:

- ▶ To allow local authorities to report on the same basis they are organised by rather than in an analysis set out by Service Reporting Code of Practice (SeRCOP)
- ▶ To introduce a new Funding Analysis as part of the narrative report which provides a direct reconciliation between the way local authorities are funded and budget and the CIES in a way that is accessible to the lay-reader

It is important to note that the Service Reporting Code of Practice (SeRCOP) analysis used for Government returns will continue. Thus the revised approach will not, at this stage, lead to a single financial reporting regime.



Accounting, auditing and governance

The ITC also seeks views on the timing of the proposed changes and the practical effect of introducing this change in financial reporting on authorities. The closing date for responses is 9 October 2015.

Bear Scotland Ltd vs. Fulton

In November 2014, the decision of the Employment Appeal Tribunal in the case of Bear Scotland Ltd vs. Fulton and two other conjoined cases was handed down. The appeal centred around whether payments to individuals in respect of holiday pay should be 'valued' at the relevant proportion of an individual's contracted salary, allowances and overtime only, or whether it should include elements that were not contractual but that individuals were required to work by their employer and allowances directly linked to work.

The case was brought by a Scottish Roads Maintenance Company. However, it has implications for Police and Fire bodies, where a number of allowances are paid as a matter of custom and practice and similarly overtime is often worked where there is an operational requirement.

The judgement opens the way for potential claims against Police Authorities in relation to this issue. Police Authorities should be aware of the above case and the potential impacts should be making arrangements to collect the data required to enable the decision to be applied prospectively.

Cap on public sector exit payments: consultation

The government announced in May that it intended to end six figure exit payments for public sector workers.

Exit payments help to unlock substantial reductions in staff costs in the medium to longer term and help authorities to meet the challenge of reduced funding available. However, given the scale of the costs associated with exit payments it is vital that they offer value for money to the taxpayer.

The government already has in place, for 2016, legislation to prevent highly paid individuals who return to the public sector within 12 months of exit from retaining their full exit payment.

Following on from this the government believes that it is right to ensure that public sector workers do not receive disproportionately large exit payments in the first instance. In particular the government is concerned about the number of public sector workers who are receiving exit payments of six figures. In 2013-14 alone, nearly 2,000 public sector employees received exit payments costing more than £100,000.

The government has proposed to introduce a cap of £95,000 on the total value of exit payments and HM Treasury launched a consultation on the proposed cap which ended in August 2015.

The current proposal has indicated that compensation payments in respect of death or injury attributable to the employment, serious ill health and ill health retirement will not be in the scope of the cap.



Accounting, auditing and governance

Reshaping policing for the public: association of police and crime commissioners statement

A discussion paper on the future of policing published by a National Advisory Group has been broadly welcomed by the Association of Police and Crime Commissioners (APCC)

The paper focuses on a number of important themes in policing such as the challenges of policing in austerity as well as how the future funding of the police might look.

Chair of the APCC Nick Alston said 'PCCs welcome this opportunity for a fresh look at what the police service does, how it does it, and the importance of partnership working.'

The paper represents the views of a number of leaders across the police sector. In addition to the paper, an event was held in Birmingham in March 2015 which was attended by over 100 police leaders from across 30 police forces including Police and Crime Commissioners, senior officers, members of the justice inspectorate, and representatives from local government and the private sector.

The paper highlights some of the key changes that have occurred across the police sector since the Comprehensive Spending Review in 2010 including the fact that police officer numbers have decreased by 11% since 2010.

The paper focuses on a number of different areas affecting the police such as the funding challenge and the changing and often complex nature of crimes. It also looks at how the police service in England and Wales might change in the future including maximising the use of technology.

The advisory group acknowledges in concluding that the paper and discussion forums held barely scratch the surface. They note however that they were pleasantly surprised by the amount of consensus that exists in terms of what needs to change as well the ambition and determination to make that happen.



Regulation news

Consultation on joint inspections to hold agencies to account

A formal consultation is underway on a proposed new form of joint targeted area inspections under section 20 of the Children Act 2004. Ofsted, the Care Quality Commission, HMIC and Her Majesty's Inspection of Probation are all involved as part of the consultation. A key focus of these targeted reviews will be to assess how well local authorities, police, probation and social care work together to safeguard children. The joint inspection programme, to be led by Ofsted, would aim to highlight good examples of where this is happening whilst equally identifying areas of poor practice, helping local agencies to improve. The consultation closed on 11 August, and responses are currently being analysed.

PSAA annual regulatory compliance and quality report

Public Sector Audit Appointments (PSAA) have released their Quality Review Programme annual reports for the 2014/15 audit season. There are individual reports on the seven principal audit firms and an overall summary report that compares all firms. The two main categories auditors are monitored for are audit quality and regulatory compliance.

PSAA have used a Red, Amber, Green (RAG) system throughout their reports. EY were one of two firms that received Green for the combined regulatory compliance and audit quality performance rating with the remaining five audit firms receiving an Amber rating.

For the second year in a row EY have received the highest Audit Quality score improving from 2.49 in 2014 to 2.55 in 2015 compared to a 2015 average of 2.19. Similarly for the financial statement audit work EY topped the table with a score of 2.36 compared to an average of 2.07.

As well as obtaining Green ratings for the two above categories, EY received a Green rating for Whole of Government Accounts work, VFM Conclusion work, Housing Benefit work, Regulatory Compliance, and Client Satisfaction.

The PSAA report on EY states:

"The firm is meeting our standards for overall audit quality and our regulatory compliance requirements. The firm has maintained its performance against the regulatory compliance indicators since last year, with all but one of the 2014-15 regulatory compliance indicators scored as green. The firm's overall weighted audit quality score has increased from last year and the satisfaction survey results show that audited bodies are satisfied with the performance of EY as their auditor."

Based on this review, PSAA state:

"We are satisfied that the risks of audit failure remain low; that all firms are meeting PSAA's regulatory requirements; and that all firms are continuing to produce work to an acceptable standard."



Regulation news

Auditors' work on value for money arrangements

The Local Audit and Accountability Act 2014 provided the Comptroller and Auditor General with the power to issue guidance to auditors which may explain or supplement the provisions of the Code of Audit Practice. This was a role previously undertaken by the Audit Commission.

This guidance is issued in the form of Auditor Guidance Notes (AGNs) and the 2014 Act requires auditors to comply with this guidance.

The NAO is currently consulting on a draft AGN regarding auditors' work on value for money arrangements. The consultation closes 30 September 2015 in advance of the guidance being issued in November 2015. EY and other audit suppliers are currently coordinating their responses to the draft guidance which would apply to audits from 2015/16 onwards.



Key questions for the audit committee

What questions should the audit committee ask itself?

Has the policing body considered the impact (both direct and indirect) on its finances of the National Living Wage?

Are we aware of the final determination in the Bear Scotland case and its potential financial and accounting implications?

Has scenario planning commenced for the prospective Police and Crime Commissioner elections scheduled for 2016?

What are the latest HMIC PEEL assessments telling us in terms of direction of travel? Are there specific areas which need to be reviewed further and if so what are management doing in respect of these?



Find out more

Ey Item Club Summer 2015 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>

Policing by consent is a principle we must all fight for

The transcript of the Home Secretary's speech can be read at <https://www.gov.uk/government/speeches/home-secretary-announces-review-of-deaths-in-policy-custody>

National Living Wage

Sources include:

BBC – <http://www.bbc.co.uk/news/uk-politics-33437115>

Local Government Association – http://www.local.gov.uk/web/guest/media-releases/-/journal_content/56/10180/7386419/NEWS

UK Homecare Association – <http://www.ukhca.co.uk/downloads.aspx?ID=473>

2016/17 code of practice ITC

For details about the CIPFA Invitation to Comment on the 2016/17 Code of Practice, see <http://www.cipfa.org/policy-and-guidance/consultations/201617-code-of-practice-on-local-authority-accounting-in-the-united-kingdom-invitation-to-comment>

'Telling the story' ITC

More information about CIPFA's consultation on 'Telling the Story' can be found at <http://www.cipfa.org/policy-and-guidance/consultations/telling-the-story-improving-the-presentation-of-local-authority-financial-statements>

Bear Scotland Ltd vs. Fulton

For the full text of the judgment, visit <https://www.judiciary.gov.uk/wp-content/uploads/2014/11/bear-scotland.pdf>

Cap on public sector exit payments: consultation

The details of the Government's consultation on capping public sector exit payments can be found at <https://www.gov.uk/government/consultations/consultation-on-a-public-sector-exit-payment-cap/consultation-on-a-public-sector-exit-payment-cap>

Reshaping policing for the public: association of police and crime commissioners statement

The APCC's statement can be seen at http://apccs.police.uk/press_release/reshaping-policing-for-the-public-apcc-statement/, whilst the discussion paper is available at <https://www.justiceinspectrates.gov.uk/hmic/wp-content/uploads/reshaping-policing-for-the-public.pdf>

Consultation on joint inspections to hold agencies to account

Details of the consultation can be found at <https://www.gov.uk/government/consultations/joint-targeted-area-inspections>

PSAA annual regulatory compliance and quality report

The PSAA's Audit Quality webpage can be found at <http://www.psaa.co.uk/audit-quality/>, the annual Regulatory Compliance and Quality Review Programme report is at <http://www.psaa.co.uk/wp-content/uploads/2015/07/Annual-Regulatory-Compliance-and-Quality-Review-Programme-2015-Final.pdf>, and the report specific to EY is at <http://www.psaa.co.uk/wp-content/uploads/2015/07/EY-2014-15-Annual-Regulatory-Compliance-and-Quality-Report-Final.pdf>

Auditors' work on VfM arrangements

The consultation document is available at <http://www.nao.org.uk/keep-in-touch/wp-content/uploads/sites/11/2015/08/Vfm-arrangements-auditor-guidance-consultation-document.pdf>

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

© 2015 Ernst & Young LLP. Published in the UK.
All Rights Reserved.

ED None

18793.indd (UK) 09/15. Artwork by Creative Services Group Design.



In line with EY's commitment to minimise its impact on the environment, this document has been printed on paper with a high recycled content.

Information in this publication is intended to provide only a general outline of the subjects covered. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. Ernst & Young LLP accepts no responsibility for any loss arising from any action taken or not taken by anyone using this material.

ey.com/uk