

# Police Sector audit committee briefing



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This sector briefing is one of the ways that we 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 briefings are produced by our public sector audit specialists within EY's national Government and Public Sector (GPS) team, using our public sector knowledge, and EY's wider expertise across UK and international business.

The briefings bring 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.

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 forecast

The latest EY Item Club forecast projects that UK GDP will grow by 1.8% this year, in line with last year's outcome. Rather than meaning that nothing has changed in the economy, it masks an underlying shift in the balance of demand following the fall in the pound after last June's Brexit vote - and means the economy is already adjusting to life outside the EU.

It expects growth to slow down during the course of this year, leaving 2018 and 2019 looking weaker at growth rates of 1.2% and 1.5% respectively.

As consumption grows, the shift in demand that's underway essentially involves a rebalancing from consumption to overseas trade. Last year, consumption effectively accounted for all the growth in demand, with overseas trade subtracting 0.4% from UK GDP growth. But with the savings ratio at a record low, this

year sees a major slowdown in consumption as inflation bites into spending power. Meanwhile, net trade is projected to add to GDP in every year covered by this forecast.

This adjustment is being helped by a timely revival in our overseas markets. World trade and industrial output are growing faster than at any time since 2010, when they bounced back from the recession. For once, the recent economic data has surprised on the upside - not just in the UK but also in the US and Eurozone.

This revival partly reflects the knock-on effects of the collapse in commodity prices in 2015. And their recent recovery has pushed inflation back close to target levels almost everywhere, easing worries about deflation, especially in the Eurozone.

Despite the bright spots, political risks remain. In the US, the 'Trump bump' in the financial markets has been followed by another increase in consumer and business confidence. As a

result, consumer confidence there is now stronger than at any time since the dot-com boom in 2000. However, as president, Donald Trump is facing political challenges in delivering some of his campaign promises - a situation that makes the likelihood, timing and magnitude of US policy initiatives very uncertain. What's more, any initiatives he does succeed in delivering could either help or hinder the UK's adjustment to life outside the EU.

Against this mixed background, UK exporters are currently enjoying the benefits of Single Market membership as well as the devaluation in sterling and the revival in the world economy. We are assuming they will be trading under World Trade Organisation (WTO) rules in two years' time, although it's possible that the

Government will be able to negotiate more favourable transition arrangements, perhaps followed by free trade agreements. These arrangements would make the adjustment smoother than the WTO option and provide some upside potential.

In respect of Brexit, firms may not have the confidence to invest until they see the shape of the new trading and immigration arrangements. The forecast sees investment falling this year and again in 2018, holding back demand and longer-term economic performance. As the countdown to Brexit begins, it's clear that UK businesses will be living with uncertainty for some time to come.

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## **Home Office funds police and crime commissioners to support further police and fire collaboration**

The new provisions in the Policing and Crime Act 2017 enable PCCs to take on responsibility for the governance of local fire and rescue services where a local case is made. It brings the same direct accountability to fire as is already in place with policing and allows PCCs to drive reform, maximize the benefits of collaboration and ensure best practice is shared.

Several PCCs are working on the development of proposals to take on governance of local fire and rescue services as the earliest adopters of the new governance provisions. Further PCCs are expected to bring forward proposals soon and the funding award will ensure that the work and knowledge gained is properly disseminated amongst the policing community.

Nine police and crime commissioners (PCCs) have been awarded £1 million from the Police Reform and Transformation Fund for their work in developing proposals to take on the additional responsibility for the governance of fire and rescue in their area.

The Police Reform and Transformation Fund is police-led through the Police Reform and Transformation Board. The Fund is designed to allocate extra investment to continue the job of reform. PCCs and chief constable representatives sit on the Board alongside senior leaders in policing, with the final decisions on bids made by the Home Secretary.

It is expected that the proposals will bring a fundamental shift to the way police and fire services work together, including sharing estates or back office functions. It follows a police-led process which saw funding recommendations made by the Police Reform and Transformation Board.

The PCCs who will receive funds are Sussex, West Mercia, Essex, Cambridgeshire, Northamptonshire, Hertfordshire, Gloucestershire, Staffordshire and North Yorkshire.

Further collaboration between police and fire services presents a real opportunity to increase their efficiency and effectiveness, which will benefit the public as whole.

PCCs taking on responsibility for fire and rescue services will lead to the same level of public accountability for both services.

**Of the 43 police forces in England and Wales there is a wide range of progress, and desire, among PCCs to undertake full integration. There are also a number of technical accounting issues which are being worked through in respect of key accounting principles and how a fully integrated blue light collaborative arrangement should be reported.**



## Accounting, auditing and governance

### WannaCry ransomware attack

On Friday 12 May 2017, a global ransomware attack occurred across a whole range of sectors, including healthcare, government, telecommunications and gas, spreading to over 300,000 systems in over 150 countries. This affected many NHS Providers throughout the UK including the ability of some to provide a full suite of healthcare.

Over the last five years the number of attacks has grown tremendously as cyber criminals demand relatively small amounts of money in return for the data they hold hostage. However the return of data does not always happen.

WannaCry was used in conjunction with self-propagating malware allowing it to spread aggressively to other computers over an organization's network without requiring further interaction from users. This is the first time ransomware has been used in this way.

#### Why is this attack significant?

The global scale of indiscriminate targeting emphasizes the need for all companies, private and public, to pay attention to security basics:

- ▶ Keep systems up-to-date with software patches
- ▶ Make regular backups of data
- ▶ Educate users not to click suspicious links

The overall cost of the disruption is significant, but variable by sector and organization. Actual costs to organizations is not yet known, and will differ for every victim, but could have long lasting effects in the NHS if it lead to delayed or cancelled treatments.

#### Steps to take now

The WannaCry incident highlights the need for organizations to get the cybersecurity basics right:

1. Identify and manage the organization's cyber risks, with a specific focus on the priority cyber threats and breach scenarios that could disrupt operations or have other negative impacts on the organization.
2. Educate the organization's employees in good cybersecurity practices and the use of third-party assessment/assurance programs.
3. Maintain awareness of the cyber threat environment. Cyber criminals and other attackers are constantly evolving their methods to create ever-more effective ways of exploiting vulnerabilities for monetary gain or disruption purposes. Often this involves interfering with data integrity rather than compromising its confidentiality.
4. Maintaining and regularly reviewing elements of a cybersecurity program will provide a strong foundation for building cyber resilience into your organization: patch often, define your cyber incident response process, back up regularly and practice response scenarios.

### **Preventive measures to reduce the risk of ransomware**

EY member firms range of cybersecurity services - including proactive penetration testing, cyber transformation and Managed Security Operations Centres - can be leveraged to prevent a ransomware outbreak within an organization:

- ▶ Ensure vulnerability and patch management policies and procedures are up to date and are implemented through appropriate change control procedures. Where out-of-date and legacy operating systems are used, seek guidance from vendors on further steps.
- ▶ Maintain an effective enterprise incident response and business continuity plan that is tested and measured for effectiveness against ransomware and other potential attack methods, as well as updated to reflect the current cyber threat environment.
- ▶ Ensure the organization has a security awareness training program in place with proactive testing, including screenshots of what to look out for. Clear guidance should be provided on the immediate steps alongside incident reporting guidelines. This should be communicated to all users and third parties who connect to the organization's network.
- ▶ Ensure regular, tested backups are in place to mitigate effects of possible infection and speed the recovery process in lieu of succumbing to ransom payment demands.
- ▶ Seek assurance from third parties who connect to your network that they are following similar actions to yourself and that they are appropriately protecting themselves.
- ▶ Implement endpoint monitoring, giving security operations teams the visibility into malicious behaviour occurring in the environment.
- ▶ Identify critical systems and data and confirm these are connected to Internet only when necessary.
- ▶ Make sure to test the security program with frequent penetration tests across the estate.
- ▶ Review how proactive security monitoring of the entire environment via a Security Operations Center (SOC) could enable faster detection and response to incidents.

### **Response considerations in the event of an attack**

If an organization believes it is compromised, or is in the process of being compromised, then the following activities can help to provide a rapid response, damage containment and communications to end users:

- ▶ Disconnect infected machines from the network and take all backups offline. These could become encrypted as well if left connected to the network.
- ▶ EY FIDS's Forensic Technology & Discovery Services team can be quickly mobilized to help companies:
  - ▶ Forensically analyse network and host systems to detect early indications of penetration by ransomware to allow more rapid response and remediation.
  - ▶ Forensically detect, identify and contain ransomware malware based on previous experience with ransomware negotiations and ransomware eradication. Forensically circumvent ransomware and/or recover data from damaged systems and/or backups, and verify that recovered data are clean from ransomware contamination.
  - ▶ Forensically image and preserve highly sensitive impacted machines to help ensure the systems and data are not destroyed by ransomware.
  - ▶ Collect and preserve IT and business evidence in a forensically sound manner, and then deliver internal or stakeholder investigations and support disputes with customers, service providers, and requirements for regulatory reporting.
- ▶ Activate your incident response plan and don't treat the investigation as merely an IT issue; there should be cross-functional representation in the investigation team such as: legal, compliance, information security, business, PR, HR, etc.
- ▶ Identify and address vulnerabilities in the environment, sufficiently harden the environment to complicate the attacker's effort to get back in, enhance the ability to detect and respond to future attacks, and prepare for eradication events.
- ▶ Activate your business continuity plan. Prepare data based on varying requirements for regulatory inquiries or civil suits.

## Women and leadership

The King's Fund recently drew attention to a couple of reports on women in leadership roles:

- ▶ NHS Women on Boards: 50:50 by 2020  
(see <http://www.nhsemployers.org/case-studies-and-resources/2017/03/nhs-women-on-boards-5050-by-2020>)
- ▶ Women in finance

These reports draw attention to the problems some women face in obtaining senior leadership positions within the NHS and other organisations. While there are typically more women that start in finance roles than men there are few women that move up the management ladder. The main reason for this is thought to be organisational culture.

A study in 2016 across a range of sectors found that unsupportive workplace cultures present the most significant barrier for women to progress their career. This was the case for female respondents in most age categories. Gender inequality and discrimination were reported with women feeling that they have to over-perform simply because of their gender. Recommendations following this study included building closer relationships between men and women in the workplace, and the provision of opportunities to discuss gender issues experienced within the organisational culture.

Organisational culture, such as the drive for a more inclusive approach to leadership development, is currently receiving considerable attention in the NHS. Given the NHS is made up of a predominantly female workforce, the impact of such a culture is largely upon women. Despite 77 percent of the NHS workforce being female there is generally a much lower percentage of

women in senior leadership positions. For the NHS Improvement/NHS Employers target of 50:50 representation on boards to be achieved 500 more women would need to be appointed to board-level positions by 2020.

The NHS report also advocates gender-specific learning in NHS training programmes, covering topics such as unconscious bias, management of flexible working practices and specific female coaching, mentoring and sponsorship.

Within the EY Assurance service line we have many experts in Culture and have provided various services across the NHS and Local Government. If you would like to discuss any of these past projects, or a new one for your body, please contact your local engagement lead who can provide more information.

## 2018/19 Code of Practice on Local Authority Accounting Consultation

CIPFA/LASAAC are consulting on the 2018-19 Code of Practice on Local Authority Accounting in the United Kingdom.

The consultation closes on 6 October 2017 with responses direct to CIPFA. The following changes are being consulted on:

- ▶ IFRS 9 Financial Instruments
- ▶ IFRS 15 Revenue from Contracts with Customers
- ▶ Narrow scope amendments to International Financial Reporting Standards
- ▶ Legislative and policy changes.

Further information is available from Paul Mayers, Audit Manager, on + 44 7972 221 078 or [paul.mayers@nao.gsi.gov.uk](mailto:paul.mayers@nao.gsi.gov.uk).



## Regulation news

### **State of Policing: The Annual Assessment of Policing in England and Wales 2016**

Her Majesty's Inspector of Constabulary, Sir Tom Winsor, recently presented the annual HMIC assessment of policing in England and Wales. The report focuses on a number of key themes and also reflects on the second full round of the annual Police, Effectiveness, Efficiency and Legitimacy (PEEL) assessment. Importantly as this is the second year of PEEL HMIC have been able for the first time to do a comparative assessment on the performance of the police in England and Wales. The report notes that the performance of the poorer forces lags some way behind those at the upper end of the rankings.

The report highlights two particular themes. One is the fact that police officers continue to deliver extremely well, often under very difficult circumstances. The second is a message for leaders within the police namely that they must continue to plan for the future, ensuring that officers are properly trained and equipped and that the pace of change must increase significantly.

Sir Tom highlighted a number of key areas of pressure which police forces were experiencing including having to pick up some of the work of other agencies who were similarly under pressure particularly in mental health. This was not only having an impact on the ability of individual officers and local forces to fulfil a number of other key responsibilities, but was also taking a toll on the health of many local police officers. This was a theme that the report touches on consistently.

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### **The Context of Policing in 2016**

The report also draws on the perception of the public regarding the police. Commenting on the significant funding and staff reductions since 2010 Sir Tom references that recent surveys conducted suggest that as many as three times as many people are satisfied with the police as dissatisfied. Also the proportion of people who speak highly of the police was also found to be increasing.

A consistent theme in the 2016 report with previous reports is the impact on police forces of not fully understanding the demand placed upon them. If forces have insufficient knowledge to properly understand the demands being placed on them then how can they accurately undertake proper demand management and scenario planning. HMIC have been critical in the past and again in the 2016 assessment of those forces which have cut their capacity in terms of numbers without fully understanding current or future demands.

The report notes that HMIC are working closely with the London School of Economics to help develop a demand management tool which will assist forces with future demand management.

Another area which was highlighted was poor performance management. The report is critical of a number of forces where performance management is poor, and ultimately leads to greater inefficiency. Also retention and recruitment of specialists is a problem notably amongst ranks such as Firearms Officers and Detectives.

The use of Technology within the police was also another negative theme. Whilst acknowledging that there were some examples of forces using technology in an innovative and effective manner unfortunately the report concludes that these examples were few and far between. To put it in simple terms the report notes that the police lag behind in their use of technology. This was a clear message and a call for police forces to do more with technology in the future.

### **HMIC PEEL inspections criteria 2016**

The PEEL Inspections focus on three key themes: Effectiveness, Efficiency and Legitimacy. Forces are graded as follows: Outstanding; Good; Requires Improvement; Inadequate.

**PEEL effectiveness:** an assessment of whether appropriate services are being provided by each police force and how well those services work.

**PEEL efficiency:** an assessment of if the services provided by each police force represent value for money as well as an assessment of how well demand is understood.

**PEEL legitimacy:** an assessment of how ethical and fair the services provided are.

### **PEEL 2016 assessment**

**PEEL effectiveness:** One force (Durham) was graded outstanding, 28 were graded as good; 13 were graded as inadequate and one force (Bedfordshire) was graded inadequate. Comparative figures for PEEL 2015 were: One outstanding; 24 good and 18 requiring improvement.

**PEEL efficiency:** Two forces (Durham and West Midlands) were graded as outstanding; 33 were graded as good; eight were graded as requires improvement with no forces were graded as requiring improvement. Comparative figures for PEEL 2015 were: Five outstanding; 29 good, eight requires improvement and one as inadequate.

**PEEL legitimacy:** Two forces (Kent and Derbyshire) were graded as outstanding; 36 graded as good; five were graded requires improvement with no forces graded as requiring improvement. Comparative figures for PEEL 2015 were: One outstanding; 37 good and five were graded as requiring improvement.

### **Non-PEEL reports**

HMIC also undertake a number of other inspections and reviews during the year which sit outside the PEEL assessment programme. The top 5 non-PEEL reports published were:

- ▶ Crime Data Integrity 1
- ▶ National Child Protection Inspection
- ▶ Ipsos Mori Public Views of Policing Survey
- ▶ Rape Monitoring Group Digests
- ▶ Crime Data Integrity 2

# Other news

## Outcome of local government tender process

The Public Sector Audit Appointments Limited (PSAA) announced the results of the Local Government tender on 20 June 2017, and we are delighted to say that we have been successful in retaining our 30% share of the Local Government external audit market. Details of the announcement can be found on the PSAA website.

Since 2012, we have invested and committed to the growth of our public sector assurance team, and we believe this outcome reflects the feedback our clients and the PSAA have given us on the quality, efficiency and effectiveness of our service. This is also evidenced by our AQRT scores, which is discussed below. We are committed to the public sector and going forward we are extremely pleased that we are the leading Big 4 firm delivering audit services to the local government sector.

Between now and the end of December 2017, PSAA will be consulting with audited bodies on the proposed appointed auditor to determine the allocation of audit clients. We will be actively participating in the process, with our primary focus on ensuring the allocations safeguard independence, objectivity, and ensuring we are able to continue to deliver high quality, efficient and effective audits.

**In the meantime, we are continuing to work to support our clients in preparing for the faster closure of accounts from the 2017/18 financial year. We recognise the journey our local government clients are making to transform and ensure sustainable public services. We are committed to work with our clients to share our insights from the vast range of services we provide in the public sector.**

## Financial Reporting Council's (FRC) Audit Quality Inspection Results

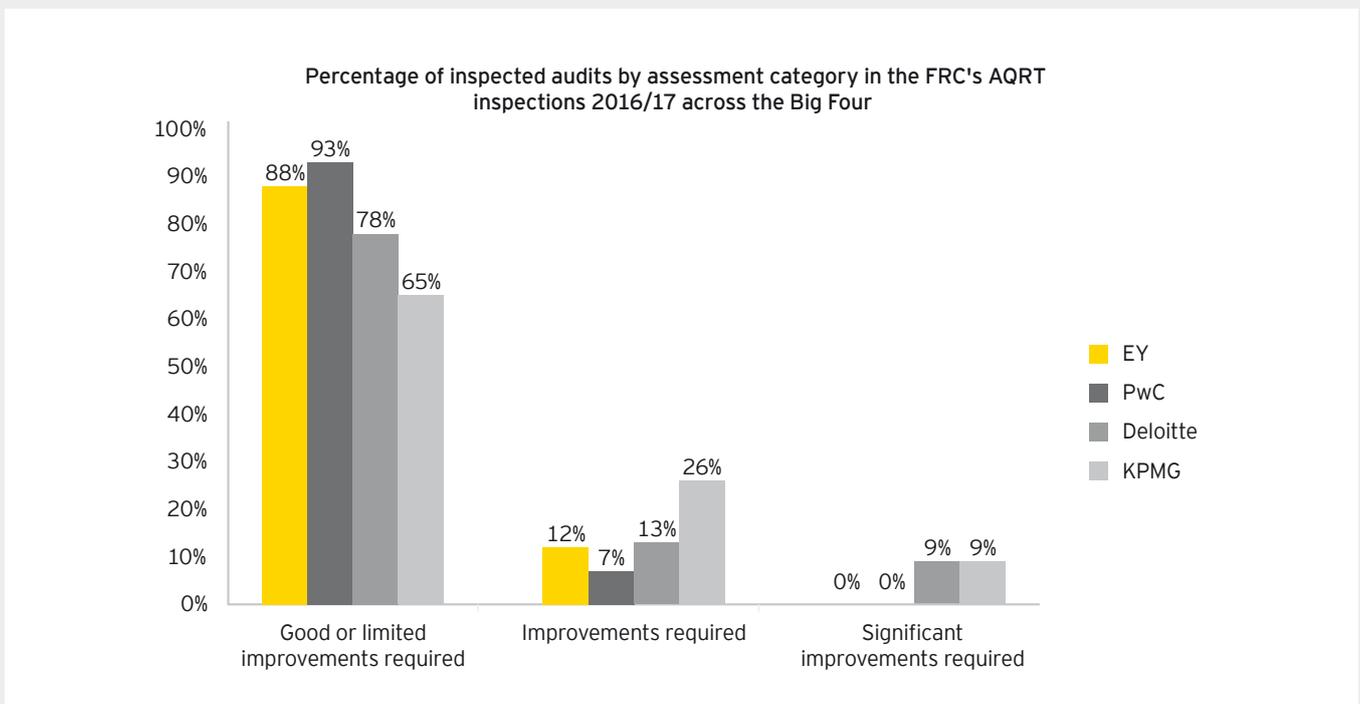
Executing high quality audits continues to be our highest priority. Ensuring that we deliver high quality audits is fundamental to our business and our public service obligation. We are therefore committed to a significant and sustained investment in audit quality.

### EY's investment continues to be reflected in the FRC's inspection results

The firm is subject to external inspection by the FRC's Audit Quality Review Team (AQRT), the ICAEW's Quality Assurance

Department (QAD) and the Public Company Accounting and Oversight Board (PCAOB) from the US. The AQRT's scope is the audits of FTSE 350 and other public interest companies in the UK and it issues public reports outlining its work and conclusions.

We are delighted that 88% of our audits inspected by the AQRT this year were assessed as requiring no more than limited improvements and that once again no audits subject to review were identified as requiring significant improvements. The results of the FRC AQRT report published in June 2017, as presented in the chart below, reflect our sustained investment in audit quality.



**Figure 1.** Bar chart showing the FRC Audit Quality Review Team inspection results for EY, PwC, Deloitte and KPMG

# Key questions for the Audit Committee

**Are you aware of the intentions of the Police and Crime Commissioner with regards to any potential blue light integration? Have you considered the implications of this?**

**Does your organisation and its partners have in place IT security arrangements which minimise the risk and impact of cyber attacks?**

**Is your culture allowing women to progress to senior positions?**

**Given the key themes contained within the HMIC Annual Assessment of the Police Review 2016 what could you learn from others who have scored higher in the respective PEEL assessments?**

## Find out more

### **EY Item Club forecast**

<http://www.ey.com/uk/en/issues/business-environment/financial-markets-and-economy/item---forecast-headlines-and-projections>

### **Home Office funding of PCCs to support police fire integration**

<https://www.gov.uk/government/news/home-office-funds-pccs-to-support-further-police-and-fire-collaboration>

### **WannaCry ransomware attack**

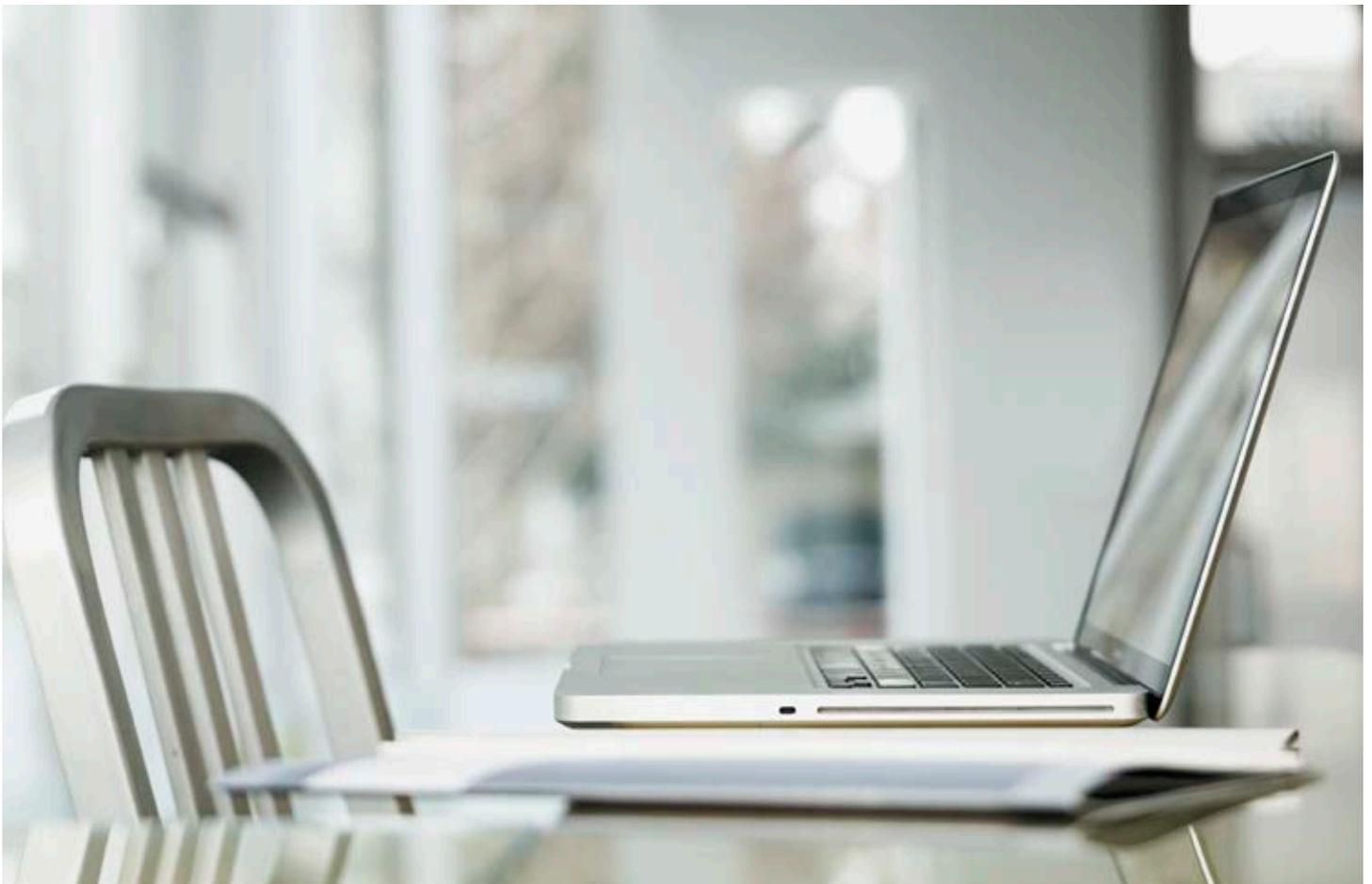
See <http://www.ey.com/gl/en/services/advisory/ey-wannacry-ransomware-attack> for full report

### **Women and leadership**

<http://www.nhsemployers.org/case-studies-and-resources/2017/03/nhs-women-on-boards-5050-by-2020>

### **State of Policing: The Annual Assessment of Policing in England and Wales 2016**

<http://www.justiceinspectors.gov.uk/hmic/publications/state-of-policing-the-annual-assessment-of-policing-in-england-and-wales-2016/>









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