



Item 6 (i)

Police Sector

Audit Committee Briefing

Quarter 3, September 2019




Building a better
working world



Contents at a glance





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

Spending Review and Tax Reform

A local government think-tank, Local Government Information Unit, has warned the new prime minister has 100 days to save local government finance. Currently local authorities are facing a financial cliff edge because funding for local government beyond 31 March 2020 has not been finalised by central Government. This has hindered the ability of local authorities to effectively budget for the 2020/21 financial year. This may result in decisions being made based on a worst-case scenario such as redundancies, reducing services or selling valuable public assets. The research conducted by the think-tank was based on evidence provided by 254 senior local government figures, and its recommendation are that the new prime minister provides a one-year emergency settlement to enable local authorities to definitively plan for future years.

On the 8 August 2019, the new Chancellor of the Exchequer announced a one-year Spending Review of government departments. Usually Spending Reviews cover three year periods; however, the Chancellor stated that this one-year round will 'clear

the ground' for government departments to focus on Brexit.

The County Council's Network chairman-elect has called for the spending review to include emergency injection of resources to help councils plug the funding gap across the sector. The Local Government Association (LGA) has calculated the scale of the funding gap for the 2020/21 financial year to be £5bn, rising to £8bn by 2025.

The Chief executive of the Chartered Institute of Public Finance and Accountancy (CIPFA) commented that the Spending Review period of one year was too short to provide the certainty required for medium term financial planning that is critically required to alleviate the fiscal pressures faced by the sector. Reform of the Business Rates and Council Tax systems are seen as critical to achieving long term financial sustainability with the sector. Research conducted by the Institute for Public Policy reported that today's Council Tax resembles a poll tax that is regressive and inefficient. London Assembly member, Tom Copley, commented that the council tax system is 'out of control' to the extent that

it is unfit for purpose. The research concluded that an official commission should be established to review and encourage a rethink of the Council tax system.

In light of the Spending Review it is now thought unlikely that the fair funding review will be introduced in time to be implemented for the 2020/21 financial year.

Value of PWLB loans rises by 75%

The Public Works Loan Board (PWLB) is responsible for lending money to local authorities, including Police forces, for capital projects at low rates of interest. According to the PWLB's annual report, the value of loans to local authorities has increased by 75% from £5.2bn at 31 March 2018 to £9.1bn at 31 March 2019. The increase was driven not only by the increased value borrowed, but also by an increase in the number of loans.

Over the last seven years the value of these loans has increased by 84% (£3.2bn 2012/13 to £9.1bn 2018/19). This amplified reliance on PWLB compares to central government funding falling by almost 50% since 2010/11.

PWLB borrowing by local authorities



Chart: Dbrady; Source: PWLB annual accounts; Get the data; Created with Datawrapper

Another contributing factor to the increase in PWLB loans is the redemption of Lender Option Borrower Option (LOBO) loans. LOBO loans were popular following the financial crisis and meant that local authorities, including fire and rescue authorities, could take out loans with even lower rates of interest than the PWLB offered. However, lenders could alter the interest rates at certain points in the future. Local authorities, including fire and rescue authorities, refused to pay the higher interest rates and therefore had to pay the loan back in full. These were then replaced with PWLB loans.

Government Launches Independent Review of Prevent

The Policing Minister, Rt Brandon Lewis, announced in August 2019 that there would be an independent review of the government's key strands of counter-terrorism strategy 'Prevent'. Prevent is one of the government's four key strands of counter-terrorism strategy with the over-arching strategy referred to as CONTEST. The purpose of Prevent is to safeguard vulnerable individuals from participating in terrorist activity or supporting terrorism by directly engaging with such individuals to counter-act the threat that exists. A key concept of Prevent is that it focuses on all terrorist threats and so ranges from the threat of Islamist extremists to far right extremists. Individuals identified as being at risk are offered tailored support and advice. Since 2012, 1,267 people have been channelled through Prevent.

Of the referrals made in 2017/18 (394) approximately 44% were referred for concerns relating to far-right extremism and 45% with regards Islamist extremism. In 2018/19, Prevent delivered 203 community-based projects reaching over 142,000 participants, 47% of which were delivered in schools.

Independent review will be overseen by Lord Carlile. Lord Carlile has previously been involved as an independent reviewer of terrorist legislation. The review is aimed at further improving and strengthening Prevent through a series of recommendations that reflect the changing and complex nature of counter-terrorism strategy in the UK. It is hoped that the independent review will conclude in the summer of 2020 with the report scheduled for conclusion in August 2020. The terms of reference will be published shortly.

Prime Minister opens first meeting of the National Policing Board

The Prime Minister, Boris Johnson, opened the first meeting of the National Policing Board (the Board) on 31 July 2019. The Board will meet four times a year and help drive forward the government's commitment to recruit an additional 20,000 police officers in England and Wales over the next three years. The Board brings together senior officers from the police force as well as key members of government. The Board will be a key partnership tool between the government and the police and aims to increase collaboration and efficiency between the 43 Police forces in England and Wales. Speaking at the opening of the meeting, the Prime Minister confirmed his commitment to the 20,000 additional police officers, with recruitment aimed at starting in the coming weeks. The Prime Minister re-stated his commitment to giving the police the resources and the capability to do their jobs.

In attendance from the police sector was the Chair of the National Police Chief's Council, Chair of the Association of Police and Crime Commissioners, the National Crime Agency Director, and also the Metropolitan Police Assistant Commissioner.

Amongst the topics discussed at the meeting were the changing and complex demands on policing and officer wellbeing and how to ensure that this was safeguarded and improved.

Home Secretary announces plans for a police covenant

The Home Secretary, Sajid Javid, announced in July 2019 his intention to introduce a police covenant for the government's recognition of the bravery and commitment of the police. The covenant was envisaged as recognising those currently serving, as well as those who have served.

In addition, the Home Secretary offered his support to the Police Federation who want to extend the same protection and rights to special constables as those of serving officers.

In recognising police officers as holders of 'the office of constable', rather than employees, it is hoped that this will infer upon serving officers a special recognition reflected in a high level of accountability and responsibility for the protection of life and property. As a result of holding such a role, all individuals would in turn be expected to hold the highest levels of personal behaviour and ethics.

A consultation will take place in due course as to the extent and scale of the proposed covenant.

Reacting to the proposal the National Chair of the Police Federation said that this was good news for policing.

The proposed covenant follows the Home Office's Front Line review of policing which looked at ways to protect officer wellbeing as well as reducing workloads and giving them a stronger role in decision making.

Government prioritises mental health and wellbeing of officers in new package to support police

The Home Office has engaged directly with police officers during the last year through a programme known as the Front Line Review and the findings were published in July 2019. The findings summarise the feedback received directly from the front line, alongside a series of measures aimed at addressing some of the issues which emerged from the feedback received. One such option being considered is the requirement for Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) to assess wellbeing as part of their annual cycle of inspections.

Other findings and recommendations from the Front Line Review include:

- ▶ Empowering the police to 'push back' where they felt ill equipped to deal with specific scenarios
- ▶ Involving front line officers in aspects of policy making and decision making
- ▶ A commitment to wellbeing and personal and professional development
- ▶ Facilitating greater communication between police chiefs and front line staff in understanding specific sources of frustration

Speaking of the review the then Home Secretary, Sajid Javid, noted that in order for the police to keep society safe, it was crucial that the government did everything possible to ensure the wellbeing of its police officers, including reducing workloads and giving officers a greater say in decision making.

As a result of the review, the government has worked closely with multiple agencies including the College of Policing, National Police Chiefs Council, the Police Federation, HMICFRS, the Association of Police and Crime Commissioners, and others to see what learning can be identified from these findings.



Accounting, auditing and governance

NAO consultation on the Code of Audit Practice: Phase Two

Under the 2014 Local Audit and Accountability Act (the Act), a review of the Code of Audit Practice (the Code) is required every five years. The Code sets out what local auditors are required to do to fulfil their statutory responsibilities under the Act. This encompasses how audits of a local body's financial statements are conducted, including reporting, and also how assurance is gained on a local body's value for money arrangements. The current form of the Code came into force on 1 April 2015, so a revised Code will be required to take effect from 1 April 2020 for the audit of a local body's financial statements for 2020/21.

The National Audit Office (NAO) is responsible for the Code of Audit Practice and has launched phase two of its consultation. The key proposed changes relate to value for money and include:

- ▶ Enhanced auditor reports on the financial statements. The Code includes the potential for audit reports to include more information on risks and key audit matters, mirroring the audit reports for NHS Foundation Trusts and large corporate entities.
- ▶ Separation of reporting on the audit of the financial statements and value for money and removing the conclusion on value for money arrangements. The Code proposes that the auditor will issue the audit report on the financial statements and then by no later than 30 September issue a separate Annual Auditors Report which will include a commentary on value for money.
- ▶ Revised Value for Money criteria, to cover:
 - ▶ Financial Sustainability – how the local authority plans and manages its resources to ensure it can deliver its services
 - ▶ Governance – how the local authority ensures that it makes informed decisions and manages its risks and finances
 - ▶ Improving economy, efficiency and effectiveness – how the local authority uses cost and performance information data to improve service delivery
- ▶ Mandatory procedures for the auditor to carry out an initial review of value for money arrangements. These procedures will enable the auditor to identify any risk based work and also provide a commentary at any emerging issues at a local body.
- ▶ Revised Value for Money reporting, including the timescales of reporting. Where a significant weakness in VFM arrangements are identified, the revised Code will require auditors to issue a recommendation to the body, setting out judgements made and evidence to support those judgements.
- ▶ Expectations on the speed auditors take on responding to formal objections to a local authority's accounts.

The consultation recognises that the proposed changes will likely alter the work needed to be done by auditors, the resources and skills auditors need to deploy and therefore possibly the fees required to fund the work.

External auditors provide independent assurance that local bodies are properly accounting for spending and that adequate value for money arrangements are in place to manage their affairs. This review of the Code is a valuable opportunity to shape the future of local authority audit. This Second Phase of the NAO's consultation of the Code is open until 22 November 2019. For more information on how to contribute to the NAO's Code consultation refer to the NAO website.

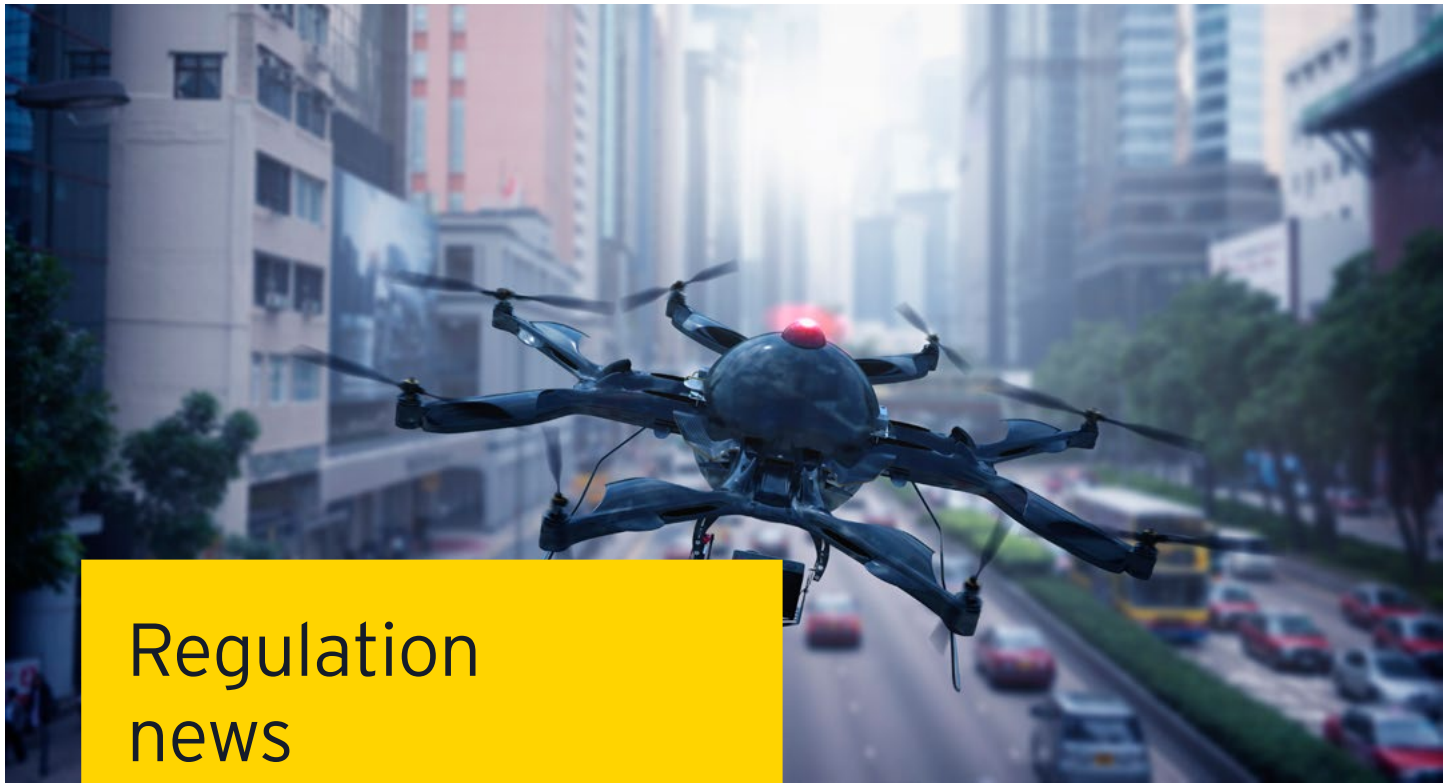
EY will be contributing to this consultation and playing its part to help shape the future sustainability of public sector audit. We believe the NAO has a critical role to lead and shape the future of local audit and through that role help to secure the future sustainability of the public audit profession. The Code and supporting auditor guidance notes present a significant opportunity to reform local public audit. We also recognise that the consultation comes at a time of significant scrutiny of the UK audit market and profession. We believe it is crucial that the Code is closely aligned with the outcome from various reviews.

PSAA records rise in delayed audit opinions

Public Sector Audit Appointments Limited (PSAA) has released information that 40% of local authorities under its remit did not receive audit opinions on their 2018/19 accounts by 31 July. This is an increase of 27% in comparison to the prior year.

PSAA acknowledge a number of factors have led to the deterioration in performance, posing challenges for both auditors and local authorities across the country. They have called for the issues to be worked through and solutions implemented which will ensure a sustainable supply of audit services in the long term.





Regulation news

Independent Audit Quality Review

On 10 July 2019, at the CIPFA annual conference, the Communities Secretary, Rt Hon James Brokenshire MP, announced the launch of an independent review of the quality of local authority audits. This review will examine the effectiveness of the local authority financial reporting and audit regime, including whether auditors are using their reporting powers correctly and if local authorities are appropriately responding to recommendations raised. The review will also look at the expectation gap between what taxpayers believe an audit delivers and what is actually delivered.

The Communities Secretary stated "A robust local audit system is absolutely pivotal to work on oversight, not just because it reinforces confidence in financial reporting but also service delivery and, ultimately, our faith in local democracy."

Sir Tony Redmond, former President of CIPFA, will lead the review. Representatives from EY will be contributing to the review in October. We expect initial recommendations to the Communities Secretary in December 2019, with a final report published in March 2020.

The review of external audit and financial reporting follows the implementation of the Local Audit and Accountability Act 2014, which abolished the Audit Commission and put in place a new localised audit regime in order to improve transparency. This

review will meet the Ministry of Housing, Communities and Local Government's commitment to undertake a post implementation review of the revised audit regime framework.

'Profound and far reaching police reform urgently needed' says Chief Inspector of Constabulary

In his latest annual assessment of policing in England and Wales the Chief Inspector of Constabulary, Sir Thomas Winsor, has concluded that though the police continue to act with integrity and bravery, profound and far reaching, police reforms are urgently needed. The assessment from HMICFRS ultimately concludes that the majority of police forces continue to perform well.

The findings are presented in the HMICFRS Report: 'State of Policing: The Annual Assessment of Policing in England and Wales 2018'.

The report concludes on a number of broad themes:

1. Despite the array of challenges currently facing police forces, the majority of forces continue to perform well. Forces, and indeed officers, continue to act with bravery and integrity, often in the face of the increasing complexity and range of challenges that they currently face.
2. The current criminal justice system in which the police operate is dysfunctional and defective. The report specifically focuses on the impact of this on children, and the most vulnerable in society, which it says are let down by the current criminal justice system. Often there is a cycle of intervention which fails to ultimately tackle prevention.
3. There is currently an expectation gap between police funding and the expectation of the public. The report focuses on two specific aspects of police funding: one is that the funding is too focused on the short-term and the second is that the funding is not tailored in any way to the unique circumstances of local forces. The biggest issue, however, is the widening expectation between what the public perceives and the ability of the police to be able to deliver those expectations.
4. The last theme developed and explored in the report is the need to reform national, local and regional arrangements to better encourage co-operation and intelligence sharing across the boundaries and between the 43 police forces in England and Wales. At present the current system is seen as a barrier preventing effective and efficient policing. The report argues that there is an increasing call for compulsory reform if the current model/s cannot voluntarily reform themselves in the required manner.

In addition to commenting on the general broad themes the report also touches on an update to some of the specifics of HMICFRS Inspections for 2018/19. The Police effectiveness, efficiency and legitimacy Inspection programme (PEEL) is currently in its fourth year and enables HMICFRS to publish its thematic reports such as the State of Policing and more focused local inspections. The changes are referred to as Integrated Performance Assessments (IPA). Some of the key changes as a result of IPA are:

- ▶ A single set of questions that covers all 3 PEEL pillars
- ▶ Just one period of fieldwork in the IPA assessment period
- ▶ For most forces fewer days of fieldwork inspections
- ▶ Extra evidence and an increased focus on Force Management Statements to help drive better and more focused inspections and assessments

Key Questions for the Audit Committee

Spending Review and Tax Reform

What is the size of your Force's funding gap in the medium term? What processes does your Force have in place to address its funding gap?

As members how do you provide effective oversight and governance of these processes?

Home Secretary Announces Plans for a Police Covenant

Has your Force had any direct input into the Front Line Review and what do you see as the opportunities and challenges arising from the Front Line Review?

Government prioritises mental health and wellbeing of officers in new package to support police

What impact would the increase in police numbers have on your local policing strategy and are you clear on the key priorities for your local force?

NAO consultation on the Code of Audit Practice

Will your Police force contribute to Phase Two of the consultation conducted by the NAO?

PSAA records rise in delayed audit opinions

Did your Police force make the publication deadline? Does your finance team have the appropriate resources to ensure financial accounts and working papers are prepared to a high enough standard?

Profound and far reaching police reform urgently needed' says Chief Inspector of Constabulary

What learning is there for your Force from the 'State of Policing 2018 Assessment'?

Find out more

Spending Review and Tax Reform

<https://www.publicfinance.co.uk/news/2019/07/new-pm-given-stark-warning-over-future-local-councils>

<https://www.publicfinance.co.uk/news/2019/08/councils-call-spending-review-plug-their-funding-black-hole>

Value of PWLB loans rises by 75%

<https://www.publicfinance.co.uk/news/2019/07/pwlb-loans-shoot-751>

Independent Review of PREVENT announced

<https://www.gov.uk/government/news/lord-carlile-to-lead-independent-review-of-prevent>

National Policing Board

<https://www.gov.uk/government/news/prime-minister-opens-first-meeting-of-national-policing-board>

Police Covenant

<https://www.gov.uk/government/news/home-secretary-announces-plans-for-a-police-covenant>

Front Line Review

<https://www.gov.uk/government/news/government-prioritises-wellbeing-and-mental-health-of-officers-in-new-package-to-support-police>

NAO consultation on the Code of Audit Practice

<https://www.nao.org.uk/code-audit-practice/code-of-audit-practice-consultation/>

<https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2019/03/Local-audit-in-England-Code-of-Audit-Practice-Consultation.pdf>

PSAA records rise in delayed audit opinions

<https://www.publicfinance.co.uk/news/2019/08/psaa-records-dramatic-rise-delayed-audit-opinions>

<https://www.publicfinance.co.uk/news/2019/07/brookshire-reveals-independent-probe-local-government-audit>

Independent Audit Quality Review

<https://www.gov.uk/government/news/audit-quality-of-councils-will-face-examination-in-new-independent-review>

'Profound and far reaching change'

<https://www.justiceinspectorates.gov.uk/hmicfrs/publications/state-of-policing-the-annual-assessment-of-policing-in-england-and-wales-2018/#download>

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