



Item 7 (ii)

# Police Sector Audit Committee Briefing

Quarter 2, June 2019



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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.

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

Our national Government and Public Sector (GPS) team have produced this briefing using our public sector knowledge, and EY's wider expertise across UK and international business.

This briefing brings together not only technical issues relevant to the Police sector but wider matters of potential interest to you and your organisation.

You can find out more about any of the articles featured by following the links 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

## Economic forecast – EY Club Item

There will be little respite from the weakness the UK economy experienced last year. The economy expanded by 1.4% in 2018, the slowest rate since 2009. It looked like growth was picking up over the first three quarters of 2018, but this pattern was driven largely by erratic factors related to the weather, dragging on activity early in the year, then boosting it over the summer, and the last quarter of 2018 saw growth slip back. 2019 offers some upsides – lower inflation is boosting spending power, as should a relaxation of fiscal austerity. If a Brexit deal passes before the October-end deadline, some pent-up investment may come back on stream. However, more caution by consumers at home, and weakness abroad, particularly in the Eurozone, present downsides. If a 'no-deal' Brexit is avoided, we forecast GDP to rise by 1.3% this year, with growth in 2020 running at 1.5%. The UK leaving the EU without an agreement, however, would see the economy likely suffer stagnation or even a mild recession in the first half of 2020. In that eventuality, we forecast growth of only 0.1% next year.

## The bank of England will struggle to raise interest rates more than once this year

With inflation forecast to run below the Bank of England's 2% target this year and economic growth – even under our assumption that a Brexit deal is struck – running at a modest pace, the need for tighter monetary policy is questionable. At most, the Bank may pursue one hike in Bank Rate in 2019, with August the most likely date for a rise in the official interest rate from 0.75% to 1%. But a 'no-deal' outcome to the Brexit negotiations would probably lead the Bank to cut rates, as well as engage in unconventional policies such as quantitative easing.

## Engaging Police and Crime Commissioners in National Policy

The Home Office have published a series of protocols to help support better engagement between Police and Crime Commissioners (PCCs) and the Criminal Justice System (CJS).

## National Engagement with PCCs

Drawing on good examples lessons learned from current engagement with PCCs, the Home Office have identified many areas where they believe that the CJS and supporting agencies should engage more with PCCs. A number of these include reference to a consideration of local context. These include for example:

1. Engage PCCs on major, national CJS policies and reforms influencing the local context.
2. Engage with PCCs early in the testing and development of CJS policies to ensure that the local context and consideration can be fully reflected in these.
3. Update PCCs on the implementation of national policies and reforms and agree, where appropriate, the PCC role in supporting the implementation of these locally.

There are other examples and scenarios included as well.

## PCC Responsibilities

To ensure maximum engagement there is an anticipation and expectation that PCCs will need to commit to the following key functions:

1. Provide local context, perspectives and steers on national policies and reforms, highlighting potential challenges, opportunities and variations at the local level.
2. Help support the implementation of national policies locally as agreed with national policy leads.

## Overarching Principles

To support all the above, the Home Office has also set out some overarching principles governing the nature of the arrangements in effect. These include:

1. Policy leads within the respective government departments having responsibility about how, and when, to engage with PCCs on major national policy initiatives.
2. PCCs will be expected to treat any information as confidential and ensure that information is not disseminated further, unless explicitly stated by national policy leads.





# Accounting, auditing and governance

## NAO consultation on the Code of Audit Practice

Under the 2014 Local Audit and Accountability 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 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 local body's financial statements for 2020/21.

The National Audit Office (NAO) is responsible for the Code and has launched a consultation in two phases. Firstly, through consultation of key stakeholders, which closed on 31 May 2019, and then a public consultation on the draft text of the new Code. The second phase is expected to run from September to November 2019.

The NAO has estimated that in 2017/18 £64m was spent on fees to external auditors for both local government and local NHS bodies in England. 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. For more information on how to contribute to the NAO's Code consultation refer to the NAO website.

## NAO consultation response – EY point of view

At EY, we welcome the timing and context underpinning the NAO's Consultation. 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 of Audit Practice (Code) and supporting auditor guidance notes present a significant opportunity to reform local public audit. We believe it should be guided by the following principles:

- ▶ Reforms should enhance, or at least should not create risks to, audit quality.
- ▶ The importance of the multi-disciplinary model to support local auditors to respond efficiently and effectively to the increased complexity and risks facing public sector bodies.
- ▶ That there should not be a two-tier system of generally accepted accounting and auditing standards between the public and corporate sectors.
- ▶ To be effective and sustainable, reforms need to focus on the local public audit ecosystem, including changes to how local auditors conduct and report their work on local public bodies Value for Money arrangements. We also believe that increased transparency of reporting to local taxpayers is needed to improve the effectiveness of local public bodies' corporate governance, financial position, risk appetite and rationale for significant decisions.

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.

## **CMA Publishes Final Report on Audit Market Study**

In April 2019, the Competition and Markets Authority (CMA) released its findings following an investigation in to the UK audit industry.

The following recommendations seek to address the vulnerability of the industry in the event of a loss of a 'Big 4' firm and the current views on choice and competition.

### **Operational split of UK Audit work**

The CMA has recommended that auditors should focus exclusively on audit to avoid being influenced by consultancy services. To do this the CMA have recommended that firms should have separate management and Boards for the audit service line, separate financial statements for the audit service and no profit sharing between audit and consultancy divisions.

### **Mandatory joint audits**

Barriers for entry to the audit market for firms outside of the 'Big 4' are large. The CMA recommends mandatory joint audits to increase the capacity of firms outside of the Big 4, to increase choice and to drive audit quality.

### **Audit Committee regulations**

It is essential for Audit Committees to appoint auditors that are likely to provide robust and constructive challenge to the accounting policies applied. The CMA recommends that regulators should hold Audit Committees more vigorously to account, including reporting the process for appointment and supervision of auditors.

### **Regulator five-year progress review**

The CMA recommends that the effects of these changes should be reviewed five years after implementation in the first instance and periodically thereafter. This should consider:

- ▶ Advantages of the transition to independent appointment of auditors
- ▶ If the operational split should go further
- ▶ How to adapt the joint audit approach to changing markets

## **EY's response to the CMA recommendations**

EY continues to believe that the right set of comprehensive changes is needed to enhance protection for UK pensioners, employees and investors. The CMA proposals announced risk reducing the UK's attractiveness for business. They represent a missed opportunity to create lasting change and make the UK the best and safest place to invest and work.

We were surprised that the CMA has recommended mandatory Joint Audits, given the level of opposition from companies in their submissions to the market study and the lack of evidence internationally that this measure would improve audit quality or auditor choice. We look forward to understanding the basis of this recommendation and seeing the supporting analysis.

We fundamentally disagree with the CMA's proposal for an operational split of the Big Four. We believe this would undermine audit quality by reducing our ability to draw on critical skills, capabilities and investment and diminish the resilience of the audit business. Evidence supports the benefits of a multidisciplinary model to delivering quality audits.

At a time when the FRC is reviewing corporate reporting and the Brydon Review may change the scope of audit, it appears ill-timed for the CMA to restrict the skills needed to deliver high quality audits now and in the future.

We will continue to play an active and constructive role in all the interconnected reviews into corporate reporting and audit.

We remain committed to working with regulators, standard-setters and other stakeholders, to ensure that the profession best serves the evolving needs of business, investors and the public interest. EY believe that our strong track record on audit quality, with no fines from the FRC on any audit conducted in the last five years, positions us well to make our views heard.

## CIPFA consultation: new Financial Management Code

The Chartered Institute of Public Finance and Accountancy (CIPFA) has completed its consultation on a new Financial Management Code (FM Code) which aims to improve financial management for all local authorities. The FM Code is designed to help officers of local authorities to navigate the increasing complex issues of public sector finance, including financial sustainability. The FM Code is the first time that many areas of local government financial management have been considered and consolidated in the context of a code.

The consultation version of the FM Code is available on the CIPFA website. It has been 'road tested' by a range of local authorities to consider whether it is fit for purpose and the practicalities of implementing the FM Code.

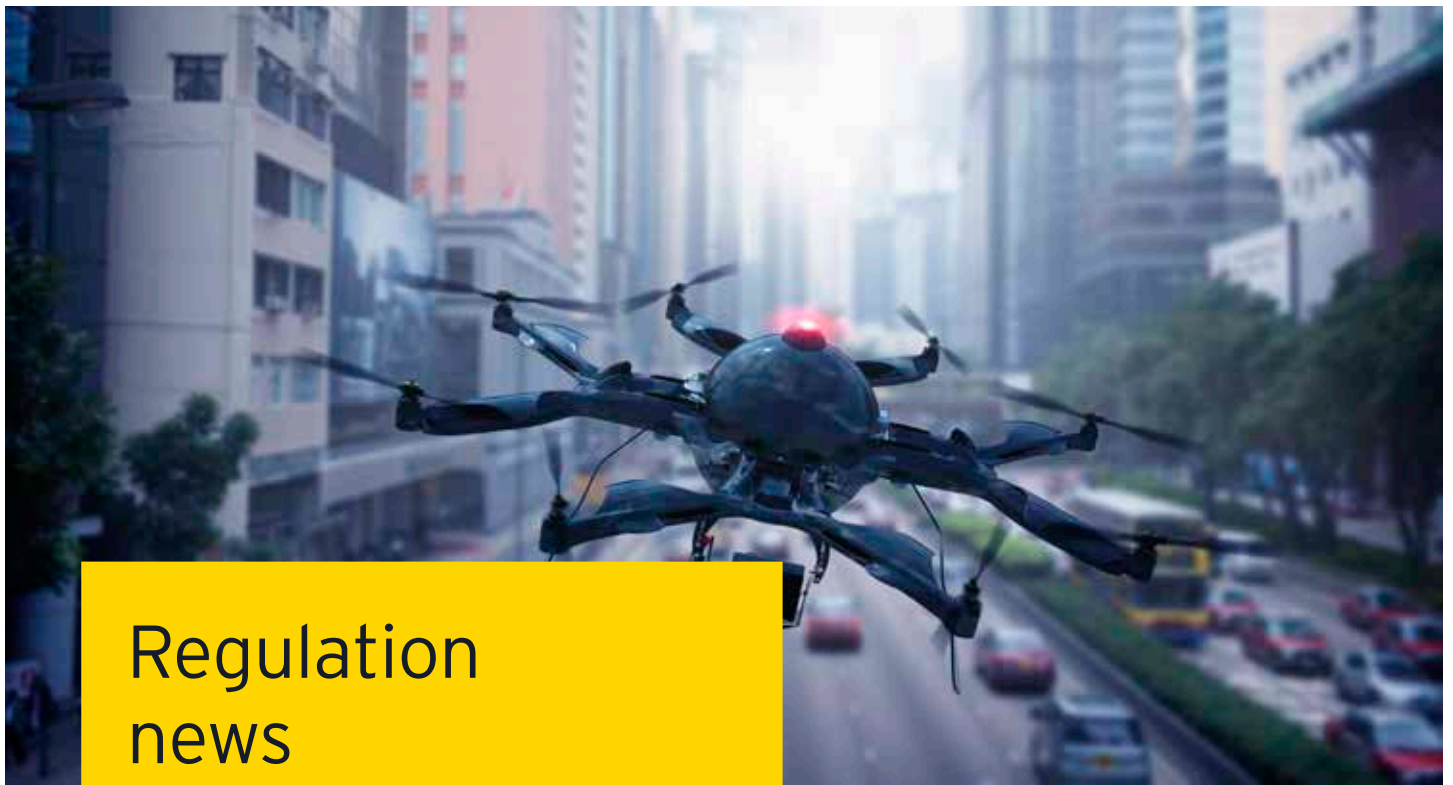
EY has responded to CIPFA's consultation on the FM Code. It is EY's view that the FM Code would assist officers of local authorities to manage their finances. The FM Code should apply to all local bodies because the principles of sound financial management are relevant for all entities; however, consideration should be given as to the reasonableness of whether local authorities have sufficient time to comply with the FM Code's implementation date of 1 April 2020.

Additionally, in EY's view, there is merit in requiring authorities to include a statement of compliance within their Annual Governance Statement; however, consideration should be given as to the nature of the compliance statement because local auditors would have to review this compliance statement for consistency with their knowledge of the entity. Furthermore, it is important that longer term financial planning by local authorities is encouraged. Long term financial planning is challenging for local authorities due to the uncertainty of the future funding schemes and the impact of other central government decisions. These factors should be reflected, and disclosed, within the estimates and judgements used by authorities in their financial resilience assessments.

CIPFA expects to issue the FM Code by October 2019.







## Regulation news

### Police forces are generally performing well ‘but cracks are widening’

Her Majesty's Inspectorate of Constabulary Fire & Rescue Service (HMICFRS) have published the first of their annual Police Efficiency Effectiveness & Legitimacy (PEEL) assessments for 2018/19. PEEL is the annual review conducted across the 43 Police Forces in England and Wales.

PEEL looks at and assesses:

- ▶ How effective forces are at preventing crime and investing crime, protecting vulnerable people and tackling serious organised crime.
- ▶ How efficiently they manage demand and plan for the future.
- ▶ How legitimately they treat the public, how ethically they behave and how they treat their workforce.

Forces are awarded one of four assessments: outstanding, good, requires improvement or inadequate.

In previous years HMICFRS published the results for the three main reviews (Efficiency, Effectiveness and Legitimacy) for each of the 43 Forces at the same time. In 2018/19 there has been a change in the process. It is the first year that PEEL has incorporated its local risk assessment which specifically focuses on the Force Management Statements. These assessments are now known as the PEEL Integrated Assessments (PIA). As a result,

publication of the reviews undertaken has been split into three separate tranches with the reviews staggered and the reports also staggered. The reports produced will only be specific to those Forces inspected as detailed in the report. General themes emerging and reported by HMICFRS will of course still be relevant to other Forces.

The Forces subject to this first round of PEEL assessments for 2018/19 were: City of London, Cumbria, Durham, Dyfed-Powys, Essex, Gloucestershire, Greater Manchester, Humberside, Kent, Leicestershire, Norfolk, Nottingham, West Midlands and Wiltshire.

- ▶ On effectiveness HMICFRS graded one force as outstanding, twelve as good and one as requiring improvement.
- ▶ On efficiency three forces were graded as outstanding, eight as good and three as requiring improvement.
- ▶ On legitimacy one force was graded as outstanding, eleven as good and two as requiring improvement.

The report found that the forces examined were performing generally well under increasing strain. The report noted that different forces were performing differently and experiencing different pressures across different services. It was unclear from the report how long forces could continue to sustain the current levels of pressure they were experiencing.

Themes emerging from the report included:

## 1. Demand and Resourcing:

The demand on policing is increasing with the nature of crimes becoming ever more complex. The problem is being compounded by a lack of resources, including a shortfall of detectives. The report highlights that this challenge is the biggest one currently facing the forces inspected by HMICFRS.

The report also highlights the fact although there is an increasing awareness of demand there is often not enough challenge of the key assumptions.

## 2. Impact on Staff:

To meet the demand officers are often taking on a wider range of activities beyond which their normal job description might demand. This includes, for example, officers investigating more complex crimes such as burglary when they are not fully qualified to do so, or without proper supervision.

## 3. Corruption:

The report also highlights the fact that pressure on forces is having a negative impact on other key aspects of the forces operations, such as their ability to tackle corruption within a force. A number of the forces subject to this first round of inspection were found to have inadequate resources within their counter-corruption units. It was noted that the inability to tackle corruption in the early stages had implications from an ethical perspective and could also create longer term issues that would need to be dealt with eventually.

## 4. Technology:

Despite the pressures noted above, the report highlights some innovative use of technology to help forces better match resources to demand.

The report highlighted a number of good practices which include development of a digital leadership programme, the use of digital media investigators in the initial response to missing people, using technology to prioritise work based on safeguarding needs and projects to bring information held on different systems onto one platform.

The report also noted a few instances of innovative approaches to technology which include collaboration with academics to understand demands, demographics and 'big data' and plans to align the force's website to a national online portal to improve reporting.

## 5. Health and wellbeing of the workforce:

A recurring theme in the report is the impact of the pressure on staff and the associated impact on their health and wellbeing.

Increased demand, longer hours, cancelled leave and reduced rest days were all found to be commonplace. Key findings included:

- ▶ Force occupational health teams were struggling to meet demand
- ▶ Although forces were taking steps to try and address the issues, officers were not always aware of the support that was on offer

## 6. Stop and Search:

Recent government changes to the stop and search legislation in response to increasing knife crime means that proper scrutiny by forces in this key area must not be compromised. The report found evidence that some forces don't monitor a comprehensive set of data on how they use force and stop and search powers. Effective monitoring of stop and search data is critical to ensure these powers are being used fairly and effectively. The report also highlighted the importance of publicising this data in order to maintain public support and co-operation.

## Fraud: Time to choose – an inspection of the police response to fraud

In 2018 the Home Secretary commissioned HMICFRS to undertake a national review of the police response to fraud. HMICFRS looked at the efficiency and effectiveness of the police response to fraud, including online fraud. The review was conducted between March and July 2018. The scope of the review looked at whether:

- ▶ Law enforcement has a well-defined strategy for tackling fraud
- ▶ Organisational structures provide the necessary capacity, capabilities and partnerships; and
- ▶ If victims of fraud receive a high quality response

The report raised a number of findings and recommendations to ensure that the future police response to fraud is improved.

## Methodology and findings:

HMICFRS acknowledges at the outset of the report that fraud can be unique and complex. They also go on to acknowledge that outside those organisations with a specific responsibility for fraud, fraud is rarely seen as a priority; however, as people are more likely to be subject to fraud than any other type of crime, it is vital that the police are able to provide a co-ordinated and efficient approach to fraud.

The HMICFRS fraud inspection included visits to eleven police forces, the National Crime Agency, all nine regional organised crime units, Action Fraud, the National Intelligence Bureau and Europol.

## Key Findings

### **1. The law enforcement response to fraud is ineffective and disjointed:**

There is no national strategy for tackling fraud. As a result, individual forces have developed their own strategies. The report highlights some good approaches being adopted locally but given the scale of the issue it ultimately concludes that not enough is being done in this area.

### **2. Role and responsibilities are not clear:**

Across police forces and wider agencies there is no clear formal understanding of who is responsible for fraud related activities or, importantly, what the expected level of performance is. This means that some activities are being duplicated or not being carried out at all.

### **3. Pockets of good prevention work:**

HMICFRS acknowledge the pockets of good prevention work that they found as part of their review. They also note good examples of the police and the private sector working together in this area. The value of this work needs to be exploited further.

### **4. Existing organisational structures are not working well:**

HMICFRS noted that the use of locally owned investigations supported by national structures is in principle sound but its application is not. The report states that the inspection found few police forces with local strategies or clear guidance about how they intended to tackle fraud. It goes on say that there worrying examples in the variation and quality of case handling and prioritisation.

### **5. Vulnerable victims receive a good service but most victims do not:**

Vulnerable victims were found to generally receive good care and advice on how to protect themselves; however, it was found that other victims are often given confusing and misleading advice about how, or whether, their case will be investigated and where it is in the stage of processing.

## Recommendations

The report makes a total of sixteen recommendations. These are addressed to different stakeholders depending on the nature of the recommendation and the current fraud structure. Some are addressed to the National Police Chief's Council (NPCC) Co-ordinator for Economic Crime whilst others are jointly addressed to the NPCC Co-ordinator for Economic Crime and the Chief Constables. Other are recommendations solely for the Home Office.

## Areas for Improvement

Alongside the sixteen formal recommendations, the report also highlights a number of areas for improvement. These are specifically addressed to local chief constables and include:

1. Improving the way that local chief constables and forces use the monthly National Fraud Intelligence Bureau victim lists to identify and support vulnerable victims and others who might require support
2. Ensuring their forces improve the identification and mapping of organised crime groups in which the principal commonality is fraud
3. Increasing their forces use of ancillary orders against fraudsters
4. Ensuring that fraudsters are included amongst those considered for serious organised crime 'prevent' tactics; and
5. Ensuring that their forces comply with the Code of Practice for Victims of Crime when investigating fraud

# Key Questions for the Audit Committee

## **EY Club Item**

Has your police force completed a Brexit impact assessment?  
Has this assessment been incorporated in informed corporate and financial decision making and risk management?

## **NAO consultation on the Code of Audit Practice**

What changes would your police force like to see in the Code of Audit Practice?

## **CMA Publishes Final Report on Audit Market Study**

If there are changes in the audit industry, what impact do you think it will have on your police force's external audit work?

## **CIPFA consultation: new Financial Management Code**

How prepared is your police force to comply with the new CIPFA Financial Management Code?

## **Police Forces are Generally Performing Well 'but cracks are widening'**

Are there any key themes emerging from the PEEL Integrated Assessment for 2018/19 which need further consideration at your Force?

## **Fraud: Time to Choose – An Inspection of the Police Response to Fraud**

Given the findings and recommendations in the HMICFRS fraud report are you confident that your force is doing all it can to respond to fraud as efficiently and effectively as possible?

# Find out more

## **Economic Forecast – EY Club Item**

<https://www.ey.com/uk/en/issues/business-environment/financial-markets-and-economy/ey-item-club-outlook-for-financial-services-spring-2019>

## **Home Office: PCC Engagement:**

<https://www.gov.uk/government/publications/police-and-crime-commissioners-engagement-protocols/engaging-police-and-crime-commissioners-pccs-in-national-policy>

## **NAO consultation on the Code of Audit Practice**

<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>

<https://www.publicfinance.co.uk/opinion/2019/05/nao-seeks-views-local-audit-code>

## **CMA Publishes Final Report on Audit Market Study**

<https://www.gov.uk/government/news/cma-recommends-shake-up-of-uk-audit-market>

## **CIPFA consultation: new Financial Management Code**

<https://www.cipfa.org/policy-and-guidance/consultations/financial-management-code-consultation>

<https://www.publicfinance.co.uk/news/2019/03/cipfa-consults-financial-management-guidance>

## **Police Forces are Generally Performing Well ‘but cracks are widening’**

<https://www.justiceinspectorates.gov.uk/hmicfrs/publications/peel-spotlight-report-a-system-under-pressure/>

## **Fraud: Time to Choose – An Inspection of the Police Response to Fraud**

<https://www.justiceinspectorates.gov.uk/hmicfrs/wp-content/uploads/fraud-time-to-choose-an-inspection-of-the-police-response-to-fraud.pdf>



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