

A photograph of three people in an office environment. A woman with short dark hair, wearing a light-colored blazer, is leaning over a wooden table. Behind her, a man with a shaved head in a light blue sweater is also looking down. To the right, another man with short brown hair, wearing a white button-down shirt, is seated at the table, looking at a stack of papers. The background shows office shelves and windows.

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

The EY ITEM Club has produced a briefing that provides a view of economic shifts and trends for local authorities to consider. It suggests that 2018 will see a continuation of the mediocre economic performance seen in 2017. This will provide a number of challenges for local authorities at a time when the need to achieve key objectives, such as driving economic growth locally, become ever more important.

Continued economic pressures in 2018

Police Forces are likely to find the UK's economic performance stumbling through 2018, with GDP growth now failing to keep up with a rosier outlook for the global economy.

The UK's GDP growth averaged 1.7% throughout 2017, outperformed by growth across the G7 economies. This reflects an economy that has displayed a degree of stability in recent quarters, but also a lack of momentum in both absolute and relative terms. GDP growth is forecasted to remain consistent at 1.7% 2018 and 2019, representing a sub-par growth by the standards of both history and the UK's international peers.

A number of economic metrics are likely to influence decision making in the year ahead:

- ▶ The CIPS/Markit Index indicated a tough few months for the UK economy at the start of 2018, influenced by a prolonged bout of bad weather. The construction sector was worst hit, with the Index suggesting a slump in March to 47.0 from the previous month's 51.4, suggesting a contraction in activity. This could impact both infrastructure and house building activity
- ▶ 2017's increasing inflation rate created the chief headwind to growth in the year. However from a consumer's point of view, the growth in average earnings will likely outpace the inflation rate. Local authorities will need to consider the impact on their workforce, including consideration towards workforce retention
- ▶ The economy faces a headwind from the prospect of rising interest rates, caused by inflation likely to stay above the 2% target and the tone of the Bank of England Monetary Policy Committee. The EY ITEM Club forecasts two further interest rate rises of 0.25% in the coming year. Local authorities need to consider the impact of this, for example on variable rate borrowing costs and also on broader treasury management plans

Implementation of the Police Pay Award 2017-18 and amendments to Temporary Promotion Arrangements

The Home Office have announced details of the Police Pay Awards settlement following the announcement from the Home Secretary in September 2017 of her decision to implement the recommendations arising from the Senior Salaries Review Board (SSRB) and the Police Remuneration Review Body (PRRB).

The pay award takes effect from 1 September 2017 and includes:

- ▶ A 1% consolidated basic pay award for all ranks
- ▶ An additional 1% non-consolidated award to the value of 1% of basic pay for all officers at federated and superintending ranks
- ▶ A 1% increase for London Weighting
- ▶ A 1% increase to the Dog Handlers' Allowance

The above applies to all police officers in England and Wales.

In addition to the above changes the Home Office also announced changes in reward for officers in temporary positions and those officers currently 'acting up' at the rank of superintendent or above. This would be in the form of a one off non-pensionable payment in lieu of pensionable pay.

Policing and Crime Bill: Overarching Documents

The Policing and Crime Bill introduced by the last Government brought major changes in policing in England and Wales with key changes such as the introduction of Police and Crime Commissioners, an enhanced Independent Police Complaints Commission (IPCC) and a strengthened inspectorate.

The current Government intend on 'finishing the job' with further provisions within the Bill. The key changes are focused on a number of key areas. These include:

- ▶ Strengthening confidence in the police complaints system by reforming the police complaints and disciplinary system. This would see a strengthened role for PCC's and the IPCC and also greater protection for police whistle blowers. PCC's would in effect become the appellate body for those appeals currently heard by Chief Constables
- ▶ Chief Constables would also be able to designate a greater range of powers on police staff and volunteers
- ▶ The terms of the Deputy PCC is extended so that, in the event of a PCC vacancy occurring (either through death or retirement) the term automatically ends when the new PCC takes office rather than, as now, upon the former PCC ceasing to hold office



Accounting, auditing and governance

IFRS 9: Financial Instruments ... just an accounting change isn't it?

On 4 April 2018 the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2018/19 was issued by a joint board of CIPFA/LASAAC. The updated Code of Practice for 2018/19 introduces two new reporting standards, IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers, which was discussed in detail in the last briefing.

The implementation of IFRS 9: Financial Instruments in the 2018/19 Local Government Accounting Code could well have an impact on Local Authority (including police bodies) budgets and ultimately General Fund reserve levels.

The IFRS impacts on an authority's financial assets: the investments it holds; the amounts it has lent to others; and other monetary based assets it may have. It changes how these financial assets are classified and how movements in their value are accounted for. It also changes how these assets are impaired; based on the risk that the assets may not be recovered in full, or at all.

Classification changes

Currently, many Local Authority financial assets are classified as 'Available for Sale'. For these assets, an accounting adjustment is permitted to ensure that movements in the value of these assets does not impact on the General Fund. Under IFRS 9, the 'Available for Sale' classification no longer exists. Local Authorities will therefore have to reclassify their financial assets into one of the three classifications allowed under the standard: amortised

costs; fair value movement through other comprehensive income; and fair value movement through profit and loss. It is this final category which is causing Local Authorities concern, as any movement in the value of assets in that classification will impact directly on General Fund balances, and at present there is no permitted accounting adjustment to remove that impact.

Collective Investment Schemes

Many authorities are now investing significant amounts in a range of collective investment schemes, such as the CCLA Local Authority Property Fund. At present there is significant debate about the classification of these funds, with the majority view being that they would be classified as fair value movement through profit and loss, with those movements therefore impacting on General Fund. The alternative view is that these funds meet the definition of equity and could therefore be reclassified to fair value movement through other comprehensive income, with the value movements not impacting General Fund. This specific issue is being considered by central government and CIPFA, and it is likely that a permitted accounting entry will be introduced to allow the impact of value movements for these type of funds to be removed from the General Fund.

Impairment of financial assets

Under the current approach, Local Authorities only have to provide for impairments to financial assets when there is objective evidence that all of the value of the asset may not be recovered; IFRS 9 introduces a new model for financial asset impairment. Under the new impairment model, Local Authorities will need to

make an estimate of the potential loss on all financial assets at the inception of that asset, even if there is no objective evidence that a loss will occur. This will obviously result in a higher impairment charge for financial assets going forward, and that charge will impact on General Fund.

In summary, the introduction of IFRS 9 into the Code is more than just an accounting change and Local Authorities will have to keep a very close eye on the budgetary impact.

CIPFA/LASAAC consultation on IFRS 16 Leases

CIPFA has issued the first of a series of briefings intended to assist practitioners engage in the consultation process for the adoption of IFRS 16 in the 2019/20 Code. Each briefing will focus on particular aspects of the standard whilst also updating stakeholders on latest developments. The first briefing focuses on recognition and measurement and the adaptations to the Code for the adoption of IFRS 16.

IFRS 16 replaces IAS 17 Leases and its related interpretations. It will apply to the 2019/20 financial statements subject to the consultation process and CIPFA/LASAAC's decisions for adoption in the 2019/20 Code. The changes introduced by the standard will have substantial practical implications for local authorities that currently have material operating leases, and are also likely to have an effect on the capital financing arrangements of the authority.

The new leasing standard will lead to a significant change in accounting practice for lessees for whom the current distinction between operating and finance leases will be removed. Instead it requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. At the commencement date of the lease, a lessee will recognise a right-of-use asset representing its right to use the underlying leased property, and a lease liability representing the lessee's obligation to make lease payments for the asset.

The lease liability is initially measured at the present value of the lease payments to be made over the lease term. Subsequently, lessees increase the lease liability to reflect interest, and reduce the liability to reflect lease payments made (as with finance leases under IAS 17).

The right of use asset is initially measured at the amount of the lease liability, adjusted for lease prepayments, lease incentives received, the lessee's initial direct costs (e.g., commissions), and an estimate of restoration, removal and dismantling costs. Subsequently, the right of use asset is depreciated in accordance

with IAS 16. (In certain circumstances, alternative subsequent measurement bases for the ROU asset may apply (in accordance with IAS 16 and IAS 40 Investment Property).

The standard has a set of specific mandatory disclosure requirements (e.g., expenses, cash flows), and also an additional requirement for a lessee to disclose any further information a user would need to assess effect leases have on the financial statements.

CIPFA will be liaising with a number of authorities across the UK to consider the cost and benefit implication of adoption of IFRS 16, as well as the impact on information requirements, the processes and systems used by local authorities.

Future briefings to support the implementation of this new standard will cover topics such as identifying the lease, recognition exemption, issues for lessors and transitional reporting arrangement, to name a few. A readiness assessment questionnaire has been included in the consultation to help local authorities in their preparations. CIPFA/LASAAC is requesting authorities to share this information in order to assess the overall preparedness for adoption on a larger scale.

Audit Committee Effectiveness Toolkit

Audit Committees are a vital part of any entity as they are charged with overseeing governance arrangements throughout their organisations. Over the past few years Audit Committees have experienced enhanced scrutiny from regulators and stakeholders with new guidance on good governance arrangements, public sector internal audit standards, managing risk and preventing fraud; whilst at the same time there has been the need to deliver better value for money for taxpayers.

Therefore it is vital that every Audit Committee is prepared, ready and are able to fulfil their role in an effective manner. In order to assist Audit Committees in monitoring their performance, and assessing their effectiveness, EY has developed a Government and Public Sector specific 'Audit Committee Effectiveness Toolkit'.

The toolkit provides an opportunity for Audit Committees to critically assess their own effectiveness to determine if they meet the minimum standards as set out in CIPFA's Position Statement for Audit Committees. The toolkit will also help all members to understand their respective roles and responsibilities of being a member of an Audit Committee.

This toolkit is available as an additional service that can be provided. Further information regarding the Audit Committee Effectiveness Toolkit is available upon request through your local audit team.



Regulation news

2017 PEEL Assessments Published

Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) published the final 2017 PEEL assessments having concluded their work across the three key strands of their assessment: Efficiency, Effectiveness and Legitimacy. The last of the assessments released was the Effectiveness assessment which was published in March 2018.

This was the fourth year of the revised PEEL assessments with each Force in England and Wales graded across four grades depending on performance. The HMICFRS inspector gives an overarching assessment including progress since the last PEEL inspection as well as challenges facing the force over the coming period. Local residents and other interested stakeholders can access the report for their local area via the HMICFRS website. The report also details other statistics of interest and compares each force at a local level with the national comparative. Comparatives include:

- ▶ Percentage of frontline policing
- ▶ Victim based crime statistics
- ▶ Cost per person per day

Force Management Statements

HMICFRS have released the Force Management Statements (FMS) self-assessment template with a submission deadline of 31 May 2018. In summary, the FMS is the Chief Constable's view of:

- ▶ The likely demand the force expects in the next four years
- ▶ The changes and improvements that will be needed to meet the demand
- ▶ Efforts the force will deliver to ensure that the gap between future demand and future capability is as small as possible
- ▶ The resources, in particular the money, the force will have to deliver on this

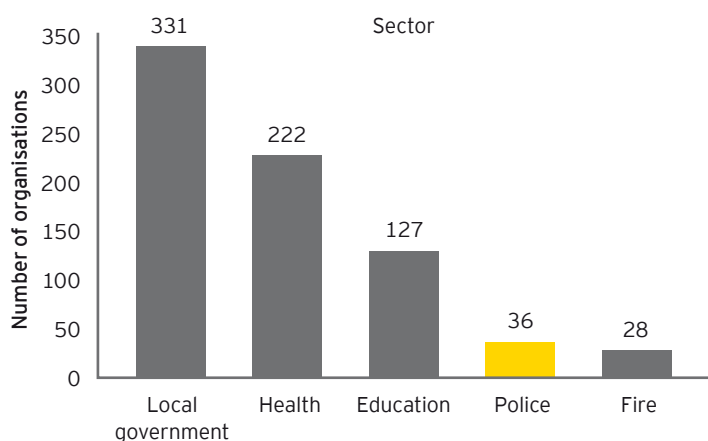
The FMS will assist HMICFRS in their review of efficiency and effectiveness. A further benefit to HMICFRS will be in targeting their work in those areas highlighted as posing the greatest risk to the public as understood by the Chief Constables.

Gender pay gap reporting

On 4 April 2018 employers in Great Britain with more than 250 staff were required by law to publish data on Gender Pay Gap for the first time. EY has analysed the gender pay gap data reported by 744 public sector bodies, including 36 Police Forces (See Figure 1 below).

Figure 1: Government and Public sector bodies reported on gender pay gap

Who reported



The gender pay gap is calculated by determining the difference between the mean or median hourly earnings for men and women, as a percentage of men's hourly earnings. We have analysed the Mean gender pay gap and the median gender pay gap below.

The education sector reported the largest average median pay gap (15.3%) with police as close second with an average median pay gap of 14.6% see Figure 2 below.

Figure 2: Average median pay gap

Average pay gap

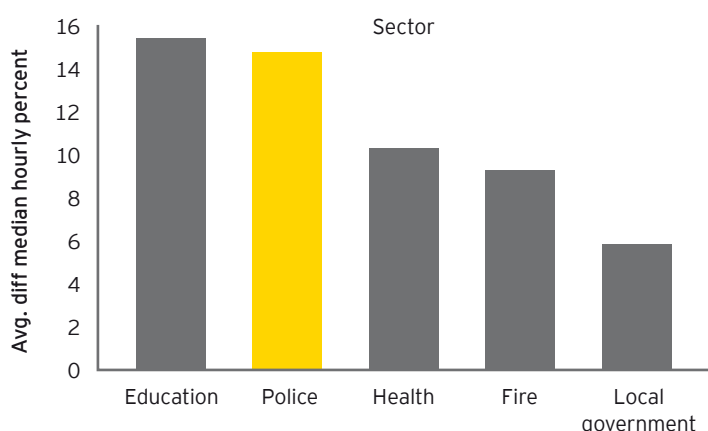
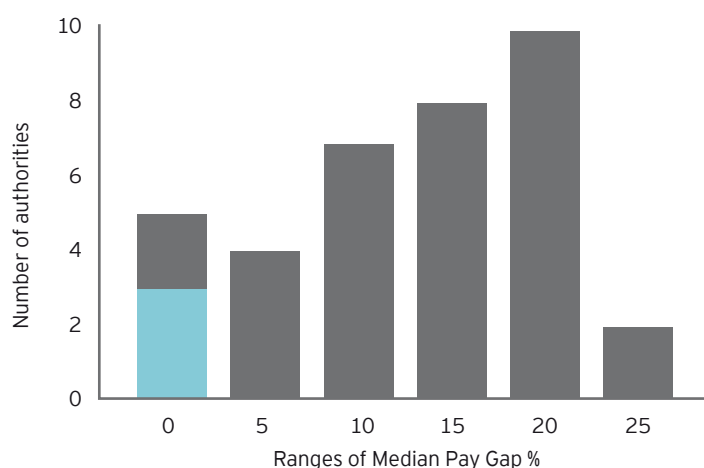


Figure 3 below sets out the % gap in median hourly pay between men and women reported by Police Forces. This shows that three authorities reported a zero pay gap, and the remaining 33 reported higher pay for men than women.

Figure 3: Difference in median hourly pay in Police

Difference in median hourly pay in fire sector, %

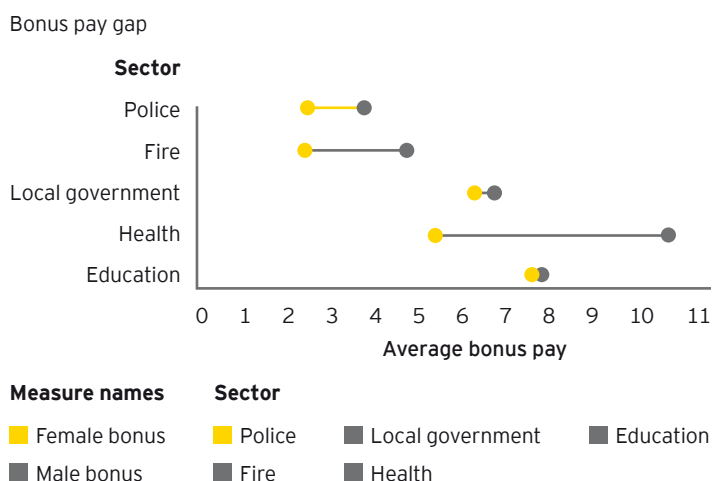


Difference in Median hourly pay as report by each organisation. Yellow represents instances where the median hourly pay was higher for women, Blue represents instances where there was no gender pay gap and grey corresponds to a median hourly pay gap where men are paid higher.

Colour shows details about reported pay gap %, where yellow colour means that women paid more, grey means men are paid more and blue shows a police authority where zero pay gap was reported.

Figure 4 below compares the bonus pay gap between men and women across different sectors. This shows that Police had the third lowest bonus pay gap.

Figure 4: Bonus pay gap in government and public sector



Making Tax Digital (MTD) for VAT: Changes from April 2019

From April 2019 it will be compulsory for VAT registered local authorities to comply with new requirements to be in line with HMRC regulations. Local authorities will need to:

- ▶ Keep and preserve digital tax records
- ▶ File VAT returns directly with HMRC using MTD compatible software

Whilst these requirements may not initially seem too burdensome, where a local authority is preparing VAT returns manually from legacy systems or multiple unconnected systems it may be a challenge (and time consuming) to fully understand and implement the necessary changes to be compliant with the MTD requirements.

With around only nine months before the new regulation comes into force local authorities will need to make sure that they have an appropriate readiness plan in place in order to comply with the new MTD obligations.

EY is recommending that local authorities prepare for MTD by creating a 'roadmap to April 2019' as soon as possible to allow for suitable time to implement changes before the deadline. This 'roadmap' should include:

1. An assessment of the current state and readiness for change
2. Evaluation of available technology solutions

Further information can be found at the end of this briefing- although where EY is the appointed auditor to an authority; it is prohibited from providing tax advice.

National Minimum/Living Wage legislation

Recent investigations from HMRC have seen an increase in Public Sector employers struggling to comply with the National Minimum/Living Wage (NMW/NLW) legislation. The NMW/NLW minimum wage for those over 25 is currently £7.83. Lower rates exist for those aged under 25 and apprentices. Whilst the NMW/NLW rates have been well publicised a number of public sector employers have been struggling to comply. A report by the Low Pay Commission, published in September 2017, raised concerns regarding the high rate of NMW/NLW breaches and specifically highlighted education support assistants and teaching assistants. Given the diverse nature of work undertaken by police employees it is important to review contracts and working practices across the different activities undertaken. This has resulted in an increase in enforcement activity in this sector. Some significant areas of focus include:

- ▶ Salaried workers whose hours are not actively monitored
- ▶ Defined dress code policies which may reduce the NMW/NLW pay
- ▶ Deductions, such as car parking charges paid by employees on facilities owned by the authority
- ▶ Salary Sacrifice which may in turn reduce the base pay for NMW/NLW

The impact of reputational damage from being publically named may outweigh any financial impact, which includes penalties of up to 200% of any arrears and lengthy HMRC investigations which could cover a period of six years.

EY have employed a number of former NMW/NLW Compliance Investigators, with significant knowledge and experience that will be able to provide insights on developing an effective approach to achieve compliance with legislation and improve monitoring procedures.

Further information can be found at the end of this briefing although where EY is the appointed auditor to an authority; it is prohibited from providing tax advice.

Key questions for the Audit Committee

- ▶ Has your authority assessed the impact of inflation and earnings growth on employee retention?
- ▶ Has your authority considered the impact of potential rises in interest rates over the next year or so, and reflected this in estimated costs of borrowing and on its broader treasury management strategy and medium term financial planning?
- ▶ Are the pay awards and forward settlements adequately reflected in forward medium term financial plans?
- ▶ Has your authority assessed the impact of the new accounting standards IFRS 9 Financial Instruments on your budgets?
- ▶ Has your authority assessed the impact IFRS 16 will have on cost, processes and system information?
- ▶ How is the effectiveness of your Audit Committee assessed and monitored?
- ▶ Having reviewed the 2017 PEEL Assessment for your force what are the challenges and risks for the medium term. Are these adequately reflected in the risk registers and forward plans?
- ▶ Is your Force Management Statement an accurate reflection of the force and its biggest challenges and risks?
- ▶ Have you considered the gender pay gap at your authority? Where there is a gender pay gap, what actions are being taken to reduce the gap?
- ▶ How prepared is your authority for the new Making Tax Digital (MTD) VAT requirements that will come into force from April 2019?
- ▶ How does your authority ensure that it complies with the National Minimum/Living Wage (NMW/NLW) legislation?

Find out more

EY ITEM Club Spring Forecast 2018

<https://www.ey.com/uk/en/issues/business-environment/financial-markets-and-economy#section1>

Implementation of the Police Pay Award 2017-18 and Amendments to Temporary Promotion Arrangements

<https://www.gov.uk/government/publications/circular-0022018-police-pay-award-2017-18-and-temporary-promotion-arrangements/circular-0022018-implementation-of-the-police-pay-award-2017-18-and-amendments-to-temporary-promotion-arrangements>

Policing and Crime Bill: overarching documents

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/537257/Factsheet_0_-_overview.pdf

Code of Practice Improvements

<http://www.cipfa.org/policy-and-guidance/publications/c/code-of-practice-on-local-authority-accounting-in-the-united-kingdom-201819-online>

<http://www.cipfa.org/about-cipfa/press-office/latest-press-releases/new-code-improves-transparency-of-transactions-in-local-government-finances>

<http://www.cipfa.org/policy-and-guidance/consultations/code-of-practice-on-local-authority-accounting-in-the-united-kingdom,-c,-consultation-on-ifrs-16-leases>

<http://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board/local-authority-leasing-briefings>

<https://www.gov.uk/government/consultations/ifrs-16-leases-exposure-draft-1801>

Audit Committee Effectiveness Toolkit

Please contact your local audit team

PEEL 2017 Assessments

<https://www.justiceinspectorates.gov.uk/hmicfrs/news/news-feed/2017-peel-assessments-published/>

Force Management Statements

<https://www.justiceinspectorates.gov.uk/hmicfrs/about-us/what-we-do/force-management-statements/>

Making Tax Digital (MTD) for VAT: Changes from April 2019

<https://www.ey.com/gl/en/services/tax/digital-tax---why-digital-tax>

<https://www.gov.uk/government/publications/making-tax-digital/overview-of-making-tax-digital>

<https://www.icaew.com/en/technical/tax/making-tax-digital>

National Minimum/Living Wage legislation Compliance

<https://www.gov.uk/government/publications/enforcing-national-minimum-wage-law>

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