

Police Sector Audit Committee Briefing

Quarter 1, March 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.

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

This briefing is 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.

This briefing brings 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 Club Item

The EY ITEM Club's winter forecasts describe the UK economy as being 'mired in a Brexit fog'. The uncertainty arising from the lack of clarity around the timing and nature of the UK's withdrawal from the EU, along with the associated downside economic risks, contribute to a relatively gloomy outlook for the UK economy. This, in turn, has a number of significant consequences when applying a local government focus.

UK GDP grew 1.4% in 2018; the smallest rise since 2009. Under the assumption that the UK leaves the EU with a deal, growth is predicted to increase marginally to 1.5% in 2019, whilst a 'no-deal' scenario is projected to yield just 0.7% growth in 2019 (although there is significant uncertainty around this forecast). The initial economic shock, coupled with the current lack of capital investment and expected reduced migration, would adversely impact the level of UK economic activity in the long term.

2019/20 Local Government Settlement

On 29 January 2019 the Government confirmed the Local Government Finance Settlement for 2019/20. The settlement is the annual determination of funding allocations from central government to local governments.

The 2019/20 settlement will allow Local Authorities, excluding police and crime commissioners, continued flexibility in setting council tax levels. In 2019/20, Authorities will be able to increase council tax for up to a maximum of 3% without the need for a local referendum. The government has agreed a referendum limit for PCC of £24 to address changing demands on police forces. During consultation, the preference of many local authorities, including police and crime commissioners (PCCs) and chief constables (CCs), was for the council tax referendum level to be removed altogether, however the view of the government is that this level of flexibility should be sufficient to address local needs, whilst protecting households from excessive increase in council tax.

The Local Government Association (LGA) have responded to the finance settlement by stating that, overall, local authorities, including PCCs and CCs, will still face a significant funding gap during 2019/20. This settlement is the final year of the existing four year offer. The LGA has raised concerns that there is no clarity over funding levels after March 2020, which hampers meaningful financial planning.

The Chartered Institute of Public Finance and Accountancy (CIPFA) has responded to the settlement by calling on central Government to consider policy options for longer term reform in order to increase financial sustainability across the local government sector, including PCCs and CCs.

Police Funding Increase

The Government has announced additional funding for the police in 2019/20. The Police and Crime Commissioner will receive an additional £314 million. A further £509 million may be available through increased police precepts levied through local council tax increases.

Broken down, the £314 million is split almost evenly between money earmarked for pension increases at £153 million and £161 million in general grants. Of the £161 million, £14 million has been earmarked specifically for the Metropolitan Police and the City of London Police who are seen as facing 'unique pressures'.

Within the settlement is an additional £59 million for funding of counter-terrorism policing in 2019/20.

Should the Police and Crime Commissioners wish to take advantage of the possibility of increasing the precept, this would see a typical band D property increase its annual bill by £24 a year.

The Home Secretary has said that the additional funding will help the police recruit more officers and also help them to assist in dealing with the range of complex crimes the police now face.

According to the Public Accounts Committee there are currently 15% fewer police officers than 2010.

Provisional Police Grant Settlement: 2019 to 2020

Final allocation of grants to police and crime commissioners in England and Wales for 2019 to 2020 was approved by parliament on 24 January 2019. The Home Secretary has decided to continue with the policy of damping which ensures that every police force will continue to receive the same percentage increase in the totality of formula funding.

The aggregate amount of grants to be awarded to police bodies in England and Wales was £7,665,216,197.

Broken down this is as follows:

- ▶ Home Office Police Core Settlement: £4,142,716,301
- ▶ Legacy Council Tax Grants: £507,388,388
- ▶ National and International Capital City Grants: £190,173,525
- ▶ Welsh Top Up Grant: £4,128,442
- ▶ Precept Grant: £2,700,000
- ▶ DCLG Funding Formula: £2,818,109,541

Individual allocations for each of the 43 local policing bodies in England and Wales are detailed within the Police Grant Report (England and Wales) 2019/20.





Accounting, auditing and governance

NAO report: Local Authority Governance

The National Audit Office (NAO) has published a report on local authority governance. The report examined the pressures faced by local government governance systems, the extent to which local governance arrangements function as intended and whether the Ministry of Housing, Communities and Local Government (MHCLG) is fulfilling its responsibilities as steward of the system.

Key findings of the report were that:

- ▶ The risk profile faced by many local authorities, including PCCs and CCs, has increased due to reduced spending power and increased demand for services. External auditors have indicated that risk profiles were 37% higher in 2017/18 as a result
- ▶ Effective governance arrangements are important to ensure financial control at times of financial pressure. PCCs and CCs are accountable to their communities on how monies are spent and ensuring that spending represents value for money. Good governance means that proper arrangements are in place to ensure effective budgetary control and budget setting scrutiny

- ▶ Concerns have been raised by external audit firms on the effectiveness of internal checks and balances; including the effectiveness and sustainability of internal audit, governance arrangements and the adequacy of risk management processes
- ▶ Over half of section 151 officers requested greater focus from external audit on value for money conclusion and less on capital assets
- ▶ MHCLG has the ability to intervene where it has concerns over governance arrangements; however the process for engagement is not transparent

The NAO report recommended that MHCLG should adopt a stronger leadership role to oversee and coordinate the key aspects of the governance framework

CIPFA's Chief Executive Officer welcomed the report stating that no authority should remain complacent with their current governance arrangements, given the significant financial and delivery challenges authorities face. The report also found that while 87% of s151 officers who report directly to the Chief

Executive responded as they were able to provide unfettered advice to the senior leadership team, this dropped to 52% where s151 officers who responded as not having a clear reporting line. CIPFA has called for all s151 officers to be placed in a position where they can directly report any concerns they may have to the senior leadership team.

Accounting IFRS 16: Leases – change of timetable

The Government's Financial Reporting Advisory Board (FRAB) has decided to defer the implementation of the new Accounting standard IFRS 16 Leases until 01 April 2020, which is one year later than originally intended. The CIPFA/LASAAC Local Authority Accounting Code Board has similarly agreed to delay the implementation of IFRS 16 in the Local Government Code of Practice until 01 April 2020 for local government bodies. This decision was made to avoid the additional work load caused by the Whole of Government Accounts data collection process and to finalise the approach relating to the subsequent re-measurement of right-of-use assets.

CIPFA/LASAAC have encouraged local authorities to continue to progress their plans for the implementation of the new standard including to ensure that local authorities have the appropriate information, processes and systems in place.

CIPFA: Streamlining of the accounts

CIPFA, in conjunction with the Society of London Treasurers and external audit firms, has prepared guidance for local authorities, aimed at chief finance officers and heads of finance, on how to streamline the authority's annual financial statements; including the year end closure processes and format of the published financial statements.

Aspects covered by the guidance include using materiality to avoid key messages being obscured by excess detail, reviewing accounting policies so that only relevant information is included and consideration of the presentation and layout of the financial statements themselves.

The key benefits to local authorities for stream lining their financial statements and year end closure processes include:

- ▶ More accurate in year information
- ▶ Reduced time to prepare the accounts
- ▶ Enhanced reputation of the finance function
- ▶ Smoother external audit process

The report includes guidance on how to prepare working papers with sufficient and appropriate audit evidence, which will inevitably reduce delays/issues during the external audit process and a pre-audit checklist on the draft year-end accounts.

This guidance is available free from CIPFA's website and is based on information as per Public Sector Accounts Workshops.





Police Workforce Statistics: England and Wales 31 September 2018

The latest workforce statistics across the 43 police forces in England and Wales were published by the Home Office in January 2019. These figures are as at 31 September 2018. The data is compiled by the Office for National Statistics. The table below is an extract from the report.

There were a total of 200,448 full-time equivalent (FTE) workers employed across the 43 Police Forces in England and Wales. This represents Police officers, Police staff and designated officers and Police Community Support Officers. Special constables and Police support volunteers are not part of this headcount as they are not paid by the police force. The 200,448 FTE represents a modest 1% increase in the figures when compared to the previous year as demonstrated below:

Table 1: Police workforce in England and Wales as of 30 September 2017, 31 March 2018 and 30 September 2018

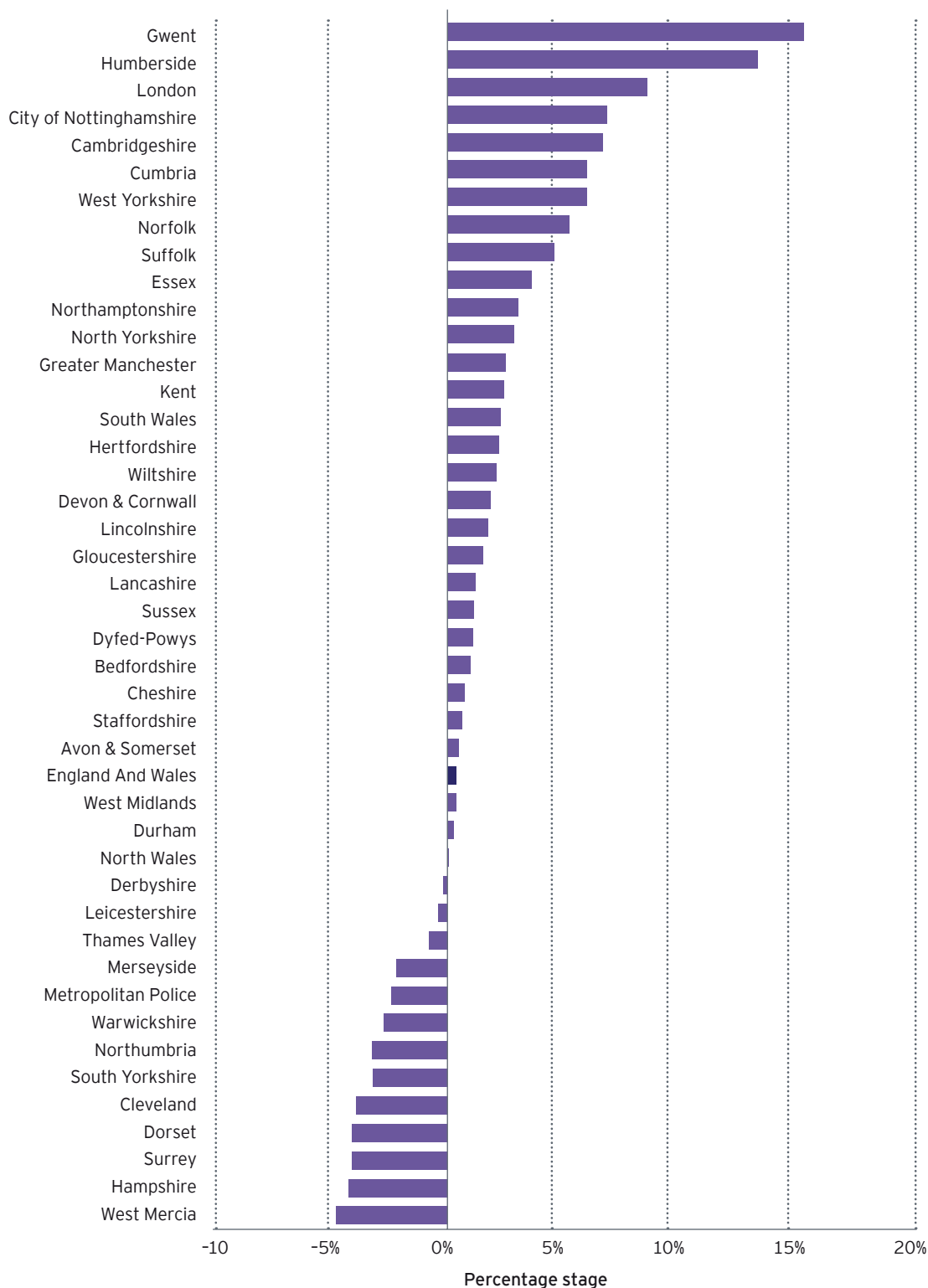
				Change in 12 months 30 Sep-17 to 30 Sep-18	
	30-Sep-17	31-Mar-18	30-Sep-18	Number	Percentage
Police officers	121,929	122,404	122,395	466	0.4%
Police staff and designated officers	66,393	67,200	68,256	1,863	2.8%
PCSOs	10,056	10,139	9,791	-265	-2.6%
Total workforce	198,388	199,752	200,448	2,060	1.0%
Special constables (headcount)	12,601	11,690	11,029	-1,572	-12.5%
PSVs (headcount)	6,909	7,856	8,131	-	-

Source: Police Workforce Statistical Bulletin 02/19, England and Wales, 30 September 2018

Police officer numbers stood at 122,395 across the 43 Police Forces in England and Wales. This was a 0.4% increase on the number of police officers at 30 September 2017. Figure 1 details the trend since 2006 with approximately 19,000 less police officers in 2018 than 2006. Although there was a minimal

increase in the number of police officers in 2018, in total, compared with 12 months earlier, the picture across the 43 Police Forces in England and Wales is far from uniform with 13 police forces showing a decrease in police officers compared with 12 months earlier.

Figure 1: Change in the number of police officers as of 30 September 2018, compared with 30 September 2017



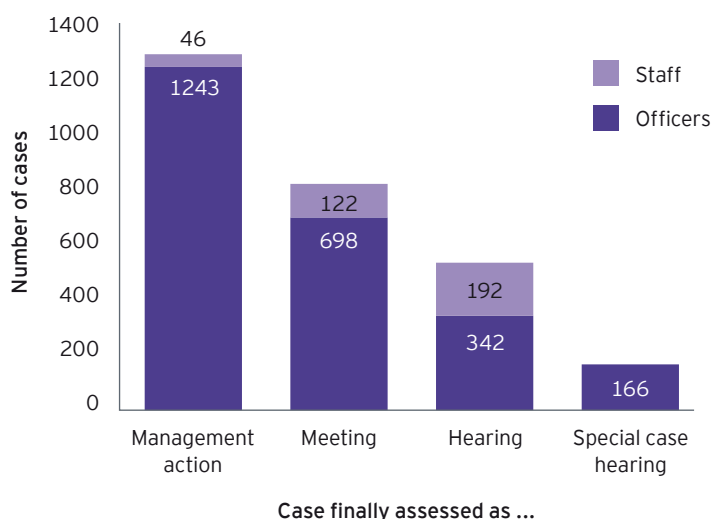
Source: Police Workforce Statistical Bulletin 02/19, England and Wales, 30 September 2018

Also included in the analysis provided is details on the number of police officers and police staff subject to misconduct or gross misconduct proceedings in 2018/19. A total of 2,809 police officers and staff were the subject of such proceedings. Of those 2,809 a total of 1,520 were subject to misconduct proceedings. Broken down further this was managed as follows:

- ▶ 820 were assessed as misconduct and referred to a misconduct meeting
- ▶ 700 required a misconduct hearing or special case hearing

The remaining 1,289 did not require the bringing of misconduct proceedings but resulted in management action. For further analysis please refer to Figure 2.

Figure 2: Number of cases assessed relating misconduct or gross misconduct for the year ending 31 March 2018



Source: Police Workforce Statistical Bulletin 02/19, England and Wales, 30 September 2018

Home Office data is also available on the number of criminal investigations against police officers and police staff in 2017/18. For the year ended 2017/18 there were a total of 174 criminal investigations, 137 of which related to police officers and 37 of which related to police staff. Of the criminal investigations against officers, 59% resulted in the officer pleading or being found guilty. 34% resulted in a non guilty verdict with a further 7% of cases being discounted on the grounds of a lack of evidence.

For police staff 62% resulted in a guilty verdict with 16% not guilty.

Police 'Not Prioritising Fraud'

Police Forces in England and Wales are not prioritising fraud despite accounting for nearly a third of all crimes.

In a joint study by the Police Foundation think tank and Perpetuity Research, the findings were that only 3% of fraud cases in 2017/18 resulted in criminal charges. By comparison the number of criminal charges for overall crime was over 4 times higher at 13%.

The research findings provided further details on the nature of the fraud environment and also the nature of fraud and how it is perpetrated using online technologies. For example most fraud cases (78%) currently involve the perpetrator and the victim living in different areas. Furthermore 68% of forces currently rely on non-specialist officers to investigate, despite research proving that specialist officers prove much more effective in solving such cases.

Online and digital technology were highlighted as playing a big part in the modern fraud environment. Slightly more than two thirds of all frauds (69%) were cyber enabled with almost half (43%) being initiated online.

The outputs from the research culminated in the report 'More Than Just a Number'. The report calls on the government to develop a national fraud strategy as well as suggesting that fraud investigations be undertaken by dedicated fraud teams rather than local forces.

Governing culture – practical considerations for the Board and its committees

Corporate culture has been a hot topic since the financial crisis. In examining the underlying causes of corporate failings, many commentators began to reflect on the role of corporate culture in decision making. The Audit Committee has a unique role to play in the governance of culture, which can directly affect the integrity of the financial statements, internal control processes and risk management.

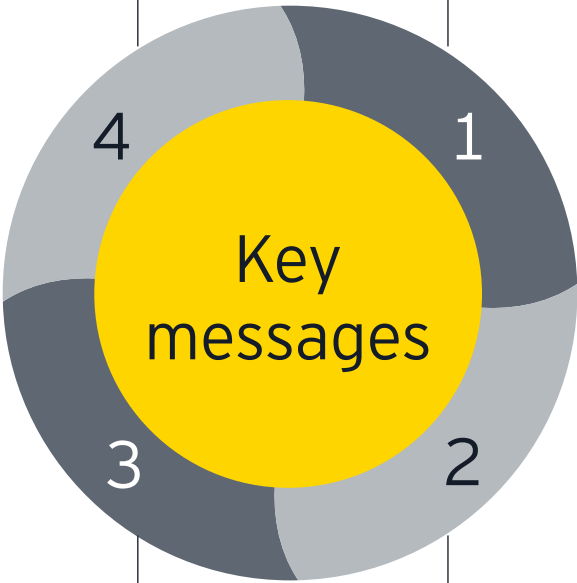
Corporate culture can no longer be a conceptual discussion topic, instead Audit Committees should have clear and specific responsibilities including establishing, promoting, assessing, monitoring and reporting culture. Committees need to include cultural considerations within their governance frameworks and consider the decisions they make and the oversight they exercise through the lens of culture.

An organisation's culture creates the environment in which internal controls must operate. Misalignment between the desired and actual culture, and between desired and actual behaviours, has clear implications for risk management. Using culture to enhance compliance frameworks, and thereby reduce risk, can lead to reductions in fines imposed and litigation costs, fewer financial misstatements and lower counterparty risk, including in supplier relationships.

Key messages for consideration by nomination committees:

Employees should be trained in how to use the company's stated values when making daily business decisions. The committee should gain assurance on the effectiveness of such training.

The nomination committee should consider the current and desired culture of the company when recruiting the CEO and NEDs to ensure that new appointments are aligned with the organisation's goals. It should also consider the extent to which external search firms are briefed on culture.



The nomination committee should consider gaining assurance that feedback on culture from departing employees, as well as from external sentiment analysis, is monitored and addressed.

The nomination committee should consider how it gains assurance on the integration of cultural considerations into recruitment and progression practices within lower levels of the company as well.

Key questions for the Audit Committee

EY Club Item

Is your force prepared for the different scenarios on the UK's exit from the EU?

2019-20 Local Government Settlement

How has your force been impacted by the 2019/20 finance settlement? How has this been reflected in budget setting and medium term financial planning?

Police Funding Increase

Are you aware of the Police funding settlement for your force? What impact does this have on your Medium Term Financial Plan and does this impact in any way on your strategic risk register?

NAO report: Local Authority Governance

Is your force satisfied that appropriate governance arrangements are in place?

Does your s151 officer have the ability to raise concerns directly with the senior leadership team?

IFRS 16 Leases

What plans does your force have in place to ensure it will be ready to implement the IFRS 16 new accounting standard when it becomes effective on 1st April 2020? Does your force have the appropriate information, processes and systems in place?

CIPFA: Streamlining of the accounts

How Has your force reflected on the first year (2017/18) of the faster close accounts deadline? Has your force considered what improvements and efficiencies can be achieved for the current year (2018/19)?

Has the your force reviewed how it can streamline its financial statements and year end closure processes?

Police Workforce Statistics: England and Wales 31 September 2018

What assurances have you received on the workforce model and staffing levels at your force?

Police 'Not Prioritising Fraud'

Are you aware of the extent of misconduct and gross misconduct cases at your force? What assurances do you receive from those overseeing this process?

Governing culture

Practical considerations for the Board and its committees

To what extent has the Committee considered potential underlying cultural issues when assessing the integrity of financial statements? How aware is the Committee of how its own culture affects the interaction with internal auditors, external auditors and management?

Find out more

EY Club Item

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

2019-20 Local Government Settlement

<https://www.local.gov.uk/parliament/briefings-and-responses/provisional-local-government-finance-settlement-201920-day>

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-responds-to-the-provisional-local-government-finance-settlement-201920>

<https://www.gov.uk/government/speeches/final-local-government-finance-settlement-2019-to-2020-written-statement>

Police Funding Increase

<https://www.publicfinance.co.uk/news/2018/12/police-funding-increase-short-term-buck-passing>

Provisional Police Grant Settlement: 2019/20

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/764311/Provisional_police_grant_report_2019-2010.PDF

<https://www.gov.uk/government/publications/police-grants-in-england-and-wales-2019-to-2020>

NAO report: Local Authority Governance

<https://www.nao.org.uk/report/local-authority-governance-2/>

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-response-to-nao-report-on-local-government-governance>

Accounting IFRS 16: Leases – change of timetable

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

CIPFA: Streamlining of the accounts

<https://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/local-authority-accounting-panel>

Workforce Statistics

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/772792/police-workforce-sep18-hosb0219.pdf

Fraud

<https://www.publicfinance.co.uk/news/2018/12/police-not-prioritising-fraud>

Governing culture – practical considerations for the board and its committees

[https://www.ey.com/Publication/vwLUAssets/EY-Governing-culture-practical-considerations-for-the-board-and-its-committees-January-2019/\\$File/EY-Governing-culture-practical-considerations-for-the-board-and-its-committees-January-2019.pdf](https://www.ey.com/Publication/vwLUAssets/EY-Governing-culture-practical-considerations-for-the-board-and-its-committees-January-2019/$File/EY-Governing-culture-practical-considerations-for-the-board-and-its-committees-January-2019.pdf)

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