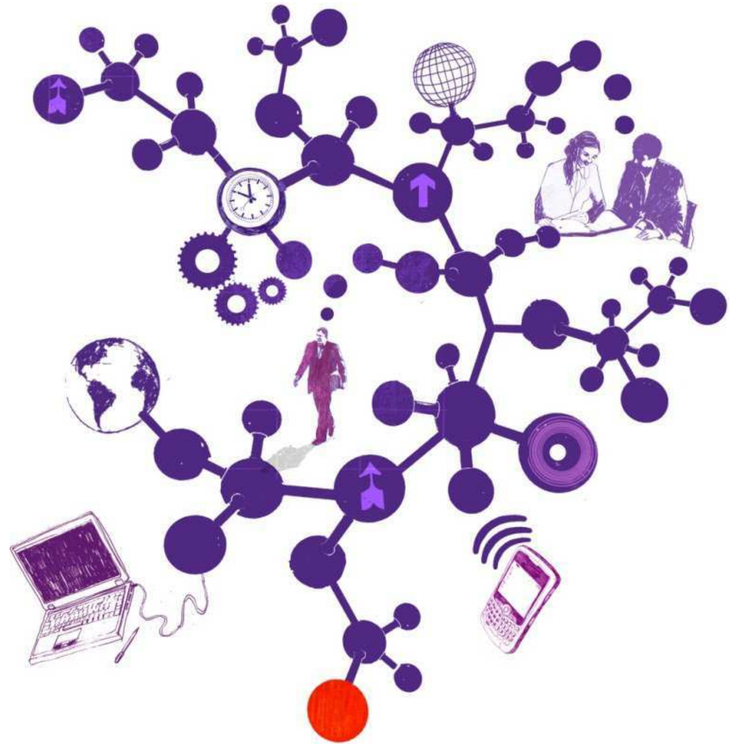
AGENDA ITEM 7

Grant Thornton

Joint Audit Committee Update for Lancashire Police & Crime Commissioner and The Chief Constable for Lancashire Constabulary

Year ended 31 March 2015

February 2015



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Introduction

This paper provides the Joint Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Joint Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (http://www.grant-thornton.co.uk/en/Services/Public-Sector/). Here you can download copies of our publications including:

- Developing picture, our first national report, which evaluates how the sector is responding to the Police Reform and Social Responsibility Act 2011 (PRSRA).

There are also a number of reports aimed at Local Government, which you may also find to be of interest:

- Rising to the challenge: the evolution of local government, summary findings from our fourth year of financial health checks of English local authorities
- 2020 Vision, exploring finance and policy future for English local government
- Where growth happens, on the nature of growth and dynamism across England

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

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Progress at February 2015

Work	Planned date	Complete?	Comments
2014-15 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Police and Crime Commissioner and the Chief Constable setting out our proposed approach in order to give an opinion on the Police and Crime Commissioner (PCC) and Group and the Chief Constable's 2014-15 financial statements.	2 March 2015	Yes	The Audit Plan includes the results of the interim visit to date. The interim visit work is scheduled to be completed by the end of March 2015. The Plan will be presented to the 2 March 2015 Joint Audit Committee. This report provides an update on current progress and emerging issues and gives the Committee an understanding of the audit process at Grant Thornton.
Interim accounts audit Our interim fieldwork visit includes: • updating our review of the PCC's and Chief Constable's control environment including Information Technology (IT) • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion.	January to March 2015	Partial	Work on the interim audit is scheduled to be completed by the end of March 2015. We will discuss with Officers the key financial systems for which we need to gain an updated understanding for 2014/15. • We will meet with senior finance staff and internal audit to assess the internal control environment. • An Information Technology risk assessment will be undertaken by a Grant Thornton IT specialist. • We will complete our initial risk assessments for our Value for Money Conclusion.
2014-15 final accounts audit Including: • audit of the 2014-15 financial statements • proposed opinion on the Police and Crime Commissioner (PCC) and Group and the Chief Constable's 2014-15 accounts • proposed Value for Money conclusion.	Late June to end August 2015	No	We will have discussions with the Senior finance staff on key accounting and audit issues to assist the smooth running of the final accounts audit. A joint CIPFA / FAN and Grant Thornton workshop on local government based final accounts issues was provided in February 2015.

Progress at February 2015

Work	Planned date	Complete?	Comments
Value for Money (VfM) conclusion The scope of our work to inform the 2014/15 VfM conclusion comprises: • Securing Financial Resilience - Key indicators of financial performance - Strategic financial planning - Financial governance - Financial control • Securing Economy, Efficiency and Effectiveness - Prioritising Resources - Improving Efficiency and Productivity	By end of August 2015	No	There are no significant changes in approach to the VFM conclusion work from that carried out last year. In February 2015 we provided senior officers with a listing of the evidence we will require to complete our work on the VFM Conclusion.

Emerging issues and developments

Frontline Consulting / Grant Thornton

The future of policing accountability: Learning the lessons

'Flawed' was the main word used at the third national conference for police and crime panels to describe the present police governance structure and system. With the general election fast approaching, the conference gave chairs, members and officers of police and crime panels (PCPs) the opportunity to express their views, share experiences and discuss lessons learnt from activities to date.

Areas that were covered included:

- the value and legitimacy of PCPs
- options for the future organisation of force areas
- regional collaboration
- the importance of PCPs joining the debate ahead of the general election in May 2015.

The key areas of debate were introduced by three key note speakers:

- Paddy Tipping, Police and Crime Commissioner for Nottinghamshire, discussing what he considered to be a good relationship with his PCP
- Paul Grady, Grant Thornton's Head of Police and Director of Audit, talking about governance and accountability in the police sector
- Tim Young, Frontline Consulting Associates' lead on policing and crime, who focused on a national perspective of PCP activities and achievements to date.

Drawing together the three emerging challenges for PCPs: workload demands; a lack of powers and insufficient resources, the report summarising the main discussions at the conference, sponsored by Grant Thornton, explores how to achieve good practice for panels and ideas for developing policing accountability.

Emerging issues and developments

HMIC

Value for money profiles

Her Majesty's Inspectorate of Constabulary (HMIC) published the latest value for money profiles on 31 October 2014.

The value for money (VFM) profiles provide comparative data on a wide range of policing activities. For instance: does your force spend more or less than other similar forces? Does it receive fewer or more 999 calls? How does the crime rate differ from other force areas?

It is important to note that the profiles highlight what these differences are, but not why they exist. There are many reasons why (for instance) a force might spend more on a particular function than other forces, or pay its officers more.

The VFM profiles are:
- designed for use by force management and police and crime commissioners (PCCs)and local policing bodies as well as HMIC;
- wide ranging, covering a large amount of information in a single, easy to use, document;
- presented in a single format to allow you to focus attention on the main differences which require explanation and action to improve;
- timely - being published during October, when key budget decisions are being taken;
- not league tables or targets – they are designed to give information, not judgments.

On the final page of the summary document, there is a list of all of the categories from the full VFM profile in which the force's spend is an outlier. The force's figures are compared to the spend of other forces. To be flagged as an outlier, the spend must be one of the highest or lowest10 percent of any force, and the effect of the difference must be at least £1 per head of population.

Issue to consider:

- Have the Chief Finance Officers reviewed the constabulary's report? If so, is the reason for any significant variances understood?

Emerging issues and developments

HMIC

Strategic policing requirement

The Strategic Policing Requirement (SPR) was issued in July 2012. It sets out the Home Secretary’s view of the national threats that the police must prepare for and the appropriate national policing capabilities that are required to counter those threats. The SPR respects the operational independence of the police service, advising what, in strategic terms, it needs to achieve, but not how it should achieve it.

The particular threats specified in Part A of the SPR, and referred to as the national threats in this report, are:

- terrorism;
- civil emergencies;
- organised crime;
- public order threats; and
- large-scale cyber incidents.

Part B specifies the policing response that is required nationally, in conjunction with other national agencies, to counter these threats.

Between September and November 2013, HMIC inspected 18 forces as part of its three-year programme to examine the arrangements that forces have in place to meet the strategic policing requirement. In addition data and documentary evidence was provided by all 43 police forces in England and Wales in July 2013. The reports on these inspections were issued in November 2014. No recommendations are made in the reports.

HMIC has stated that the breadth of requirements that are set out in the strategic policing requirement are outside the scope of a single inspection. Therefore, it has been necessary for HMIC to plan a series of inspections over three years so that the police response to all the national threats can be examined individually and in-depth over that period.

Issue to consider:

Lancashire was not one of the 18 forces inspected but has the Constabulary's senior officers reviewed the overall report to assess whether there are any areas where they need to take action to improve the constabulary's capacity and capability?

Emerging issues and developments

HMIC

Crime recording

In its 2013/14 inspection programme, approved by the Home Secretary under section 54 of the Police Act 1996, HMIC committed to carry out an inspection into the way the 43 police forces in England and Wales record crime data. The inspection was carried out between December 2013 and August 2014.

The inspection focussed on three broad themes: leadership and governance; systems and processes; and the people and skills involved.

Overall, the report *'Crime-recording: making the victim count'* concluded that "victims of crime are being let down. The police are failing to record a large proportion of the crimes reported to them. Over 800,000 crimes reported to the police have gone unrecorded each year. This represents an under-recording of 19 percent. The problem is greatest for victims of violence against the person and sexual offences, where the under-recording rates are 33 percent and 26 percent respectively. This failure to record such a significant proportion of reported crime is wholly unacceptable".

The report also noted that "even when crimes are correctly recorded, too many are removed or cancelled as recorded crimes for no good reason. Of the 3,246 decisions to cancel, or no-crime, 664 were incorrect. These included over 200 rapes and more than 250 crimes of violence against the person".

The report also notes that where the magnitude of the crime-recording shortcomings is recognised, rapid improvements can be made. To address these shortcomings, the police service can either "shore up the existing processes which are often flawed, and possibly review some of the more serious errors which attract the most public concern or it can design a better process that will make a long-lasting and more permanent difference".

Issue to consider:

Has the Chief Constable reviewed HMIC's report and developed an action plan to address any shortcomings identified for the constabulary?

Emerging issues and developments

National Audit Office (NAO)

Financial sustainability

The NAO has recently started a review of financial sustainability in the police service and is due to report in June 2015. The report will provide a national examination of whether the Home Office, together with other police stakeholders, effectively manage the risks to value for money of changes to police funding.

The key issues to be examined relate to:

- the Home Office's understanding of the implications of its police funding decisions and whether the its actions support police forces' financial management and capacity effectively;
- how well the Home Office monitors, analyses and utilises the work of local accountability systems to support sustainable financial management and secure value for money;
- whether the Home Office has clear definitions of what force financial and service failure would look like and a clear intervention strategy if either happened.
- whether the Home Office, as well as individual police forces, fully understand how funding reductions, have affected service delivery across forces.

Various methods will be used to undertake the study including visits to a number of police forces.

The fieldwork for the study will take place between October 2014 and February 2015.

Earlier closure and audit of accounts

Accounting and audit issues

DCLG is consulting on proposals to bring forward the audit deadline for 2017/18 to the end of July 2018. Although July 2018 is almost 4 years away, both local authorities and their auditors will have to make real changes in how they work to ensure they are 'match-fit' to achieve this deadline. This will require leadership from members and senior management. Local government accountants and their auditors should start working on this now.

Top tips for local authorities:
- make preparation of the draft accounts and your audit a priority, investing appropriate resources to make it happen
- make the year end as close to 'normal' as possible by carrying out key steps each and every month
- discuss potential issues openly with auditors as they arise throughout the year
- agree key milestones, deadlines and response times with your auditor
- agree exactly what working papers are required.

Issue to consider:

- Have the CFOs put in place a plan to address the earlier close date?

Group accounting standards

Accounting and audit issues

The CIPFA Code has adopted a new suite of standards for accounting for subsidiaries, associates and joint arrangements. These changes affect how local authorities account for services delivered through other entities and joint working with partners.

The key changes for 2014/15 are to:

- the definition of control over 'other entities'. The revised definition is set out in IFRS 10 and determines which entities are treated as subsidiaries
- the accounting for joint arrangements. This now follows IFRS 11 and includes changes to the definition of joint ventures and how joint ventures are consolidated in group accounts
- disclosures in relation to subsidiaries, joint arrangements, associates and unconsolidated entities as set out in IFRS 12.

Changes to the definition of control over 'other entities'
Control was previously defined in terms of power to govern the financial and operating policies of an entity. IFRS 10 sets out three elements for an investor to be considered as controlling an investee (all of which must be met):

- the investor has the rights to direct the relevant activities of the investee (relevant activities being the ones that determine the return for the investors – the return could be in the form of a service rather than money)
- the investor has exposure, or rights, to variable returns from its involvement with the investee
- the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

In the commercial sector, this is generally thought to have resulted in more entities being treated as subsidiaries. However, the change is in both directions: some subsidiaries have been redefined as associates. Local authorities with investments in 'other entities' will need to consider whether:

- they control any entities using the new definition. Local authorities will need to pay particular attention to special purpose vehicles and any other entities where there was a close judgement call under the old IAS 27
- there is a need for a prior period adjustment.

Group accounting standards (continued)

Accounting and audit issues

Changes to accounting for joint arrangements
Joint arrangements are contractual arrangements between two or more parties where there is joint control. IFRS 11 makes three key changes from IAS 31:

- there are now only two types of joint arrangements: joint operations and joint ventures
- In a joint operation the investing parties have rights and obligations in relation to the arrangement's assets and liabilities, whereas in a joint venture the parties have rights to the arrangement's net assets. IFRS 11 bases its definition of joint ventures on the substance of the arrangement rather than legal status. It is for the entity to assess whether a joint arrangement is a joint operation or joint venture by considering its rights and obligations arising from the arrangement. To do this the entity needs to consider the structure and legal form of the arrangement, the terms agreed by the parities and any other relevant facts and circumstances. Appendix B to IFRS 11 provides further explanation and examples of joint operations and joint ventures.
- local authorities are still required to consolidate joint ventures in their group accounts but must now do so using the equity (single line) method. The option for proportionate (line-by-line) consolidation has been removed.

The key challenge for most local authorities will be determining whether their joint arrangements are joint ventures or joint operations. The difference should be clear from the contract but in some cases judgement may be required. Local authorities that have previously used the proportionate consolidation method will need to account for the move to equity accounting as a prior period adjustment.

Disclosure of interests in other entities
IFRS 12 makes consistent the requirements for disclosures in relation to subsidiaries, joint arrangements, associates and unconsolidated entities. It includes the need for transparency about the risks to which the reporting entity is exposed as a consequence of its investment in such arrangements.

Issue to consider:

- Have the CFOs assessed the potential impact of these standards for the PCC (and Group) financial statements?

Local government financial reporting remains strong

Local government guidance

The Audit Commission published its report, Auditing the Accounts 2013/14: Local government bodies, on 11th December. (Please note that this includes Police and Crime Commissioners and Chief Constables.)

Financial reporting was consistently strong for most types of principal local authority in 2013/14 when compared to the previous financial year. This year the Commission has congratulated 16 bodies where auditors were able to issue an unqualified opinion and a VFM conclusion on the 2013/14 accounts by 31 July 2014, and the body published audited accounts promptly. Although, as only 21 principal bodies have managed to publish their audited accounts by 31 July since 2008/09, a move to bring the accounts publication date forward is likely to cause significant challenges for the majority of public bodies.

The Commission reports that auditors were able to issue the audit opinion by 30 September 2014 at 99 per cent of councils, 90 per cent of fire and rescue authorities, 97 per cent of police bodies, all other local government bodies and 99 per cent of both parish councils and internal drainage boards. This is consistent with last year for most groups, but an improvement for councils and small bodies compared to 2012/13.

Eight principal authorities were listed where the auditor was unable to issue an opinion by the 30th September deadline.

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