Grant Thornton

Joint Audit and Ethics Committee for the Police and Crime Commissioner for Lancashire and the Chief Constable for Lancashire Police

Progress Report and Update Year ending 31 March 2017

June 2017

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Introduction

This paper provides the Joint Audit and Ethics Committee with a report on progress in delivering our responsibilities as your external auditors.

Members of the Joint Audit Advisory 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. Here you can download copies of our publications:

- New laws to prevent fraud may affect the public sector
  http://www.grantthornton.co.uk/en/insights/new-laws-to-prevent-fraud-may-affect-the-public-sector/
- Fraud risk, 'adequate procedures', and local authorities
  http://www.grantthornton.co.uk/en/insights/fraud-risk-adequate-procedures-and-local-authorities/
- Brexit: local government – transitioning successfully
  http://www.grantthornton.co.uk/en/insights/brexit-local-government--transitioning-successfully/

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 Engagement Manager. Their contact details are provided on the front page of this update.

Progress to date

2016/17 work	Planned Date	Complete?	Comments
Fee Letter We are required to issue a 'Planned fee letter' for 2016/17 to both the Police and Crime Commissioner and the Chief Constable.	June 2016	Yes	The 2016/17 fee letters was presented to the June 2016 Joint Audit and Ethics Committee.
Accounts Audit Plan We are required to issue a detailed accounts joint audit plan covering the audit for 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's group financial statements, including the statements of the Chief Constable in 2016/17.	March 2017	Yes	The Audit Plan was presented at the Joint Audit and Ethics Committee in March.
Interim accounts audit Our interim fieldwork visits covers work on both the Police and Crime Commissioner and the Chief Constable arrangements, including: • updating our review of the control environments • 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 work.	January – March 2017	Complete	
Final accounts audit Covering the Police and Crime Commissioner's group financial statements, including the statements of the Chief Constable, we will : • audit the 2016/17 financial statements • issue opinions on the 2016/17 financial statements	June 2017	On-going	We are currently undertaking our audit on your draft financial statements. We are planning to complete our audit by 31th July, as part of the transition to the earlier closedown from 2017/18.

Progress to date

2016/17 work	Planned Date	Complete?	Comments
Value for Money (VfM) conclusion			
The scope of our work to inform the 2016/17 VfM Conclusion requires conclusions on whether: *"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable*	February – July 2017	On-going	Our work on the VfM Conclusion is currently on-going. We will report our findings within our Audit Findings Report.
Annual Audit Letter			
We will summarise all the work completed as part of our 2016/17 audit within one letter which will be issued after the opinion.	December 2017	Not started	

Police Sector Accounting and other issues

The Policing and Crime Act 2017

A key bill in the police reform agenda achieved Royal Assent on 31 January 2017. The Policing and Crime Act 2017 will enhance the democratic accountability of police forces and fire and rescue services, improve the efficiency and effectiveness of emergency services through closer collaboration, and build public confidence in policing. The act includes provisions which will:

- reform pre-charge bail to put a stop to people remaining on bail for lengthy periods with no independent judicial scrutiny of its continued necessity
- better enable chief officers to make the most efficient and effective use of their workforce by giving them the flexibility to confer a wider range of powers on police staff and volunteers (whilst for the first time specifying a core list of powers that may only be exercised by warranted police officers) and conferring a power on the Home Secretary to specify police ranks in regulations, thereby affording the flexibility to introduce a flatter rank structure
- place a new duty on police, fire and rescue and emergency ambulance services to collaborate where it is in the interests of their efficiency or effectiveness and enable police and crime commissioners (PCCs) to take on responsibility for the governance of fire and rescue services, where a local case is made
- improve the response to those in mental health crisis - including stopping those under 18 from being detained in a police station - and restricting such detention for adults - by reforming police powers under sections 135 and 136 of the Mental Health Act 1983
- reform the police disciplinary and complaints systems to ensure that the public have confidence in their ability to hold the police to account, and that police officers will uphold the highest standards of integrity
- increase in the maximum sentence for stalking involving fear of violence from five to ten years' imprisonment
- amend the Police and Criminal Evidence Act 1984 (PACE), including to ensure that 17-year-olds who are detained in police custody are treated as children for all purposes, and to facilitate the increased use of video link technology
- amend the firearms acts to better protect the public by closing loopholes that can be exploited by criminals and terrorists, and by issuing statutory guidance to ensure that the robust processes we have in place for assessing suitability to hold a firearms certificate are applied consistently
- confer pardons, subject to conditions, for individuals living or deceased who were convicted of now abolished gay sex offences
- improve protection for victims of forced marriage and give them more confidence to come forward by providing them with lifelong anonymity.

Further details can be found at https://www.gov.uk/government/collections/policing-and-crime-bill

The Home Affairs Committee launched an inquiry into policing for the future: changing demands and new challenges.

Advances in technology have led to the emergence of new forms of crime, and have enabled other crimes to move online, changing their nature and impact on victims and communities. Technological change has also generated new opportunities for the police, at a time of increasing focus on efficiency and innovation. Against this backdrop, there remains a complex relationship between public expectations of the police and the operational realities of modern-day policing. Police forces collectively have seen funding reductions of about 19% since 2010/11, accompanied by a significant reduction in the size of the police workforce. Many crimes are under-reported to the police and require proactive engagement with certain communities, and a large proportion of police time is devoted to non-criminal activity, such as mental health crisis work.

This inquiry explores the challenges of modern policing, and examines whether police forces in England and Wales are sufficiently equipped and resourced to keep the public safe and to respond effectively to evolving demands and changing patterns of crime.

At the launch of the enquiry, the Chair of the Home Affairs Select Committee, Yvette Cooper MP said:

"Police forces are facing multiple new and emerging challenges in their quest to protect the public from harm, including the growth of online crime and the pressures generated by non-crime demands, such as mental health crisis work. Ongoing funding reductions mean there is continuing demand for new efficiency measures, and technological change provides new opportunities for innovation.

Against this backdrop, the Home Affairs Committee is launching a major inquiry into 'Policing for the Future', to examine whether the police have appropriate capabilities to deal with modern challenges to public safety, changing patterns of crime, and new ways of engaging with the public whom they serve. We are seeking written and oral evidence on the reforms which might be required to ensure that our police are fit for purpose, cost effective and open to innovation and technological change."

- Written evidence (deadline for submission was 16 February 2017) was invited on the issues set out below:
- Reforms which may be necessary to ensure the police service has the ongoing capacity and capability to fulfil its primary task of ensuring public safety, in the face of new and evolving threats and challenges.
- Current and future crime trends and their implications for policing in England and Wales, including emerging or growing categories of crime (such as online crime and child sexual abuse) and under-reported types of crime.
- The extent to which the police are sufficiently equipped to deal with these changing patterns of crime and other operational demands, such as mental health crisis work, and where gaps in capacity and capability are likely to lie.
- The relationship between public expectations of the police, including desired visibility and perceived priorities, and the operational realities of policing within the current financial context.
- Police funding levels, efficiency and cost-effectiveness, including the role of Police & Crime Commissioners (PCCs) in driving innovation and reform.
- The role of digital technology in policing, including take-up, risks and barriers to use.
- International best practice examples of innovation in policing, and the extent to which they could be replicated in England and Wales.

Further details can be found at https://www.parliament.uk/business/committees/committees-a-z/commons-select/home-affairs-committee/news-parliament-2015/170111-new-inquiry-policing-future/

Telling the story – Changes in 2016/17 CIPFA Code

CIPFA has been working on the 'Telling the Story' project, which aims to streamline the financial statements and improve accessibility to the user. This has resulted in changes to CIPFA's 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

The main changes affect the presentation of the Comprehensive Income and Expenditure Statement ('CIES'), the Movement in Reserves Statement ('MIRS') and segmental reporting disclosures. A new Expenditure and Funding Analysis has been introduced.

The key changes are:

- the cost of services in the CIES is to be reported on basis of the local authority's organisational structure rather than the Service Reporting Code of Practice (SERCOP) headings
- an 'Expenditure & Funding Analysis' note to the financial statements provides a reconciliation between the way local authorities are funded and the accounting measures of financial performance in the CIES
- the changes will remove some of the complexities of the current segmental note
- other changes to streamline the current MIRS providing options to report Total Comprehensive Income and Expenditure (previously shown as Surplus and Deficit on the Provision of Services and Other Comprehensive Income and Expenditure lines) and removal of earmarked reserves columns.

Other amendments have been made to the Code:

- changes to reporting by pension funds in relation to the format and fair value disclosure requirements to reflect changes to the Pensions SORP
- other amendments and clarifications to reflect changes in the accounting standards.

Delivering Good Governance

In April 2016, CIPFA and SOLACE published 'Delivering Good Governance in Local Government: Framework (2016)' and this applies to annual governance statements prepared for the 2016/17 financial year. Guidance notes for Policing bodies in England and Wales were also published to assist PCCs and Chief Constables in reviewing and testing their governance arrangements against the principles for good governance. They help interpret the principles and terminology contained in the Framework in a way that is appropriate for the constitutional and statutory arrangements established within the police service. The guidance notes were drawn up in conjunction with the professional officer organisations in policing. Members of the Association of Policing and Crime Chief Executives (APACE), the Police and Crime Commissioners Treasurers' Society (PACCTS), and the National Police Chiefs' Council (NPCC).

The key focus of the framework is on sustainability – economic, social and environmental – and the need to focus on the longer term and the impact actions may have on future generations.

Policing bodies should be:

- reviewing existing governance arrangements against the principles set out in the Framework
- developing and maintaining an up-to-date local code of governance, including arrangements for ensuring on-going effectiveness
- reporting publicly on compliance with their own code on an annual basis and on how they have monitored the effectiveness of their governance arrangements in the year and on planned changes.

The framework applies to all parts of local government and its partnerships and should be applied using the spirit and ethos of the Framework rather than just rules and procedures.

Grant Thornton Publications

Integrated Reporting

Grant Thornton publications

Looking beyond the report

The move away from reporting based on historic financial information is beginning to gain momentum and Integrated Reporting is now mandatory in some countries.

In the UK, CIPFA proposed in their consultation document that the narrative report from 2017/18 reflects elements of the International Integrated Reporting Council's framework whilst the Treasury is encouraging public sector organisations to adopt Integrated Reporting.

Integrated reporting: Looking beyond the report was produced by our global Integrated Reporting team, based in the UK, New Zealand and South Africa, to help organisations obtain the benefits of Integrated Reporting.

The International Integrated Reporting Council (IIRC) describes Integrated Reporting as *"enhancing the way organisations think, plan and report the story of their business."*

At Grant Thornton, we fully agree with this and, in our view, the key word is 'enhancing' because a lot of the elements to support effective Integrated Reporting are likely to be in place already.

But anyone focussing purely on the production of the report itself will not reap the full benefits that effective Integrated Reporting can offer.

Instead, think of Integrated Reporting as demonstrating "integrated thinking" across your entire organisation, with the actual report being an essential element of it.

Our methodology is based on six modules which are designed to be independent of each other.

1. **Secure support** – effective Integrated Reporting needs leadership from the top.
2. **Identify stakeholders** – who are they and how can you engage with them?
3. **Identify the capitals for your organisation** – what resources do you use to create value?
4. **What do you have – and what do you need?** – do you have the data you need and is it accurate?
5. **Set limits and create boundaries** – make sure your report is focussed.
6. **Review and improve** – Integrated Reporting is a continuous learning process.

Our approach to Integrated Reporting is deliberately simple; experience has shown us that this works best. Things are often only complicated because people made them that way.

Our experienced, independent teams can help you keep focused throughout the entire Integrated Reporting process and can support you, no matter what stage you are at. Please speak to your Engagement Lead if you would like to discuss this further.

Integrated Thinking and Reporting

CIPFA Publications (co-authored by Grant Thornton secondees)

Focusing on value creation in the public sector

Grant Thornton has seconded staff to the International Integrated Reporting Council on a pro bono basis for a number of years.

They have been working on making the principles of Integrated Reporting <IR> relevant to the public sector and co-authored a recent report by CIPFA and the World Bank: *Integrated thinking and reporting: focusing on value creation in the public sector - an introduction for leaders.*

Around one third of global gross domestic product (GDP) is made up by the public sector and this is being invested in ensuring there is effective infrastructure, good educational opportunities and reliable health care. In many ways, it is this investment by the public sector that is helping to create the conditions for wealth creation and preparing the way for the success of this and future generations.

Traditional reporting frameworks, focussed only on historic financial information, are not fit-for-purpose for modern, multi-dimensional public sector organisations.

Integrated Reporting supports sustainable development and financial stability and enables public sector organisations to broaden the conversation about the services they provide and the value they create.

The public sector faces multiple challenges, including:

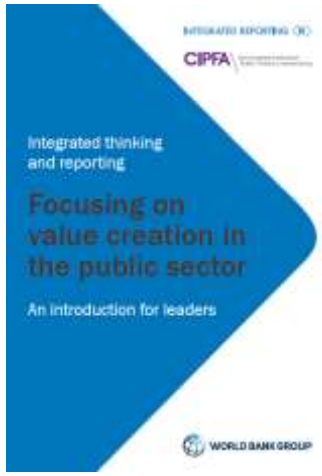
- Serving and being accountable to a wide stakeholder base;
- Providing integrated services with sustainable outcomes;
- Maintaining a longer-term perspective, whilst delivering in the short term; and
- Demonstrating the sustainable value of services provided beyond the financial.

The <IR> Framework is principle based and enables organisations to tailor their reporting to reflect their own thinking and strategies and to demonstrate they are delivering the outcomes they were aiming for.

Integrated Reporting can help public sector organisations deal with the above challenges by:

- Addressing diverse and often conflicting public accountability requirements;
- Focussing on the internal and external consequences of an organisation's activities;
- Looking beyond the 'now' to the 'near' and then the 'far';
- Considering the resources used other than just the financial.

The report includes examples of how organisations have benefitted from Integrated Reporting.



Apprentice Levy-Are you prepared?

What is the levy?

The UK has been struggling on productivity, now estimated to be 20% behind the G7 average. Developing apprenticeships is set to play a key part in tackling this and bridging the skills gap.

Announced by government in July 2015, the levy is to encourage employers to offer apprenticeships in meeting their skill, workforce and training needs, developing talent internally. The levy is designed to give more control to employers, through direct access to training funds and creation of apprenticeships through the Trailblazer process.

What is the levy?

From April 2017, the way the government funds apprenticeships in England is changing. Some employers will be required to pay a new apprenticeship levy, and there will be changes to the funding for apprenticeship training for all employers.

All employers will receive an allowance of £15,000 to offset against payment of the levy. This effectively means that the levy will only be payable on paybill in excess of £3 million per year.

The levy will be payable through Pay As You Earn (PAYE) and will be payable alongside income tax and National Insurance.

Each employer will receive one allowance to offset against their levy payment. There will be a connected persons rule, similar the Employment Allowance connected persons rule, so employers who operate multiple payrolls will only be able to claim one allowance.

Employers in England are also able to get 'more out than they put in', through an additional government top-up of 10% to their levy contribution.

When employers want to spend above their total levy amount, government will fund 90% of the cost for training and assessment within the funding bands.

The existing funding model will continue until the levy comes into effect May 2017. The levy will apply to employers across all sectors.

Paybill will be calculated based on total employee earnings subject to Class1 National Insurance Contributions. It will not include other payments such as benefits in kind. It will apply to total employee earnings in respect of all employees.

What will the levy mean in practice

Employer of 250 employees, each with a gross salary of £20,000:

Paybill: 250 x £20,000 = £5,000,000

Levy sum: 0.5% x = £25,000

Allowance: £25,000 - £15,000 = £10,000 annual levy

How can I spend my levy funds?

The funding can only be used to fund training and assessment under approved apprenticeship schemes. It cannot be used on other costs associated with apprentices, including wages and remuneration, or training spend for the wider-team.

Through the Digital Apprenticeship Service (DAS), set up by government, employers will have access to their funding in the form of digital vouchers to spend on training.

Training can be designed to suit the needs of your organisation and the requirements of the individual in that role, in addition to specified training for that apprenticeship. Training providers must all be registered with the Skills Funding Agency (SFA).

Grant Thornton update

What do I need to start thinking about now?

- How much is the levy going to cost and have we budgeted for it?
- How do we ensure compliance with the new system?
- Which parts of my current spend on training are applicable to apprenticeships?
- Are there opportunities to mitigate additional cost presented by the levy?
- How is training in my organisation structured?
- How do we develop and align to our workforce development strategy

Off-payroll working in the public sector "IR 35 rules"

The Chancellor's Autumn Statement 2016 speech delivered a number of changes that will impact the UK business environment and raise considerations for you as an employer.

In particular, the Chancellor announced that the measures that were proposed in Budget 2016 that could affect services supplied through personal service companies (PSCs) to the public sector will be implemented.

At present, the so-called IR35 rules require the worker to decide whether PAYE and NIC are due on the payments made by a PSC following an engagement with a public sector body. The onus will be moved to the payer from April 2017. This might be the public sector body itself, but is more likely to be an intermediary, or, if there is a supply chain, to the party closest to the PSC.

The public sector body (or the party closest to the PSC) will need to account for the tax and NIC and include details in their RTI submission.

The existing IR35 rules will continue outside of public sector engagements.

HMRC Digital Tool – will aid with determining whether or not the intermediary rules apply to ensure of "*consistency, certainty and simplicity*"

When the proposals were originally made, the public sector was defined as those bodies that are subject to the Freedom of Information rules. It is not known at present whether this will be the final definition. Establishing what bodies are caught is likely to be difficult however the public sector is defined.

A further change will be that the 5% tax free allowance that is given to PSCs will be removed for those providing services to the public sector.

Impact

- Increased costs
- Responsibility moved to the engager
- Increased risks for the engager
- Consider current arrangements in place

Areas / risks to consider

- Interim and / or temporary staff engaged through an intermediary or PSC
- Where using agencies ensure they're UK based and operating PAYE
- Update on-boarding / procurement systems, processes and controls
- Additional take on checks and staff training / communications
- Review of existing PSC contractor population before April 2017
- Consider moving long term engagements onto payroll

Salary Sacrifice Arrangements-Autumn Statement

The Chancellor's Autumn Statement 2016 speech delivered a number of changes that will impact the UK business environment and raise considerations for you as an employer.

In particular, the proposals from earlier this year to limit the tax and NIC advantages from salary sacrifice arrangements in conjunction with benefits will be implemented from April 2017.

Although we await the details, it appears that there is a partial concession to calls made by Grant Thornton UK and others to exempt the provision of cars from the new rules (to protect the car industry). Therefore, the changes will apply to all benefits other than pensions (including advice), childcare, Cycle to Work schemes and ultra-low emission cars.

Arrangements in place before April 2017 for cars, accommodation and school fees will be protected until April 2021, with others being protected until April 2018.

These changes will be implemented from April 2017.

As you can see, there is a limited opportunity to continue with salary sacrifice arrangements and a need also to consider the choice between keeping such arrangements in place – which may still be beneficial – or withdrawing from them.

What should you be thinking about?

- Review the benefits you offer - particularly if you have a flex renewal coming up
- Consider your overall Reward and Benefit strategy
- Consider your Employee communications

Brexit

Grant Thornton update

Planning can help organisations reduce the impact of Brexit

Several months have passed since the referendum to leave the European Union (EU), during which there has been a flurry of political activity, including the party conference season.

After many years of relative stability, organisations will need to prepare themselves for a period of uncertainty and volatility and will need to keep their risk registers under constant review. The outcome of the US Presidential election in November 2016 has added to this uncertainty.

The High Court ruling that Parliament should have a say before the UK invokes Article 50 of the Lisbon Treaty – which triggers up to two years of formal EU withdrawal talks – will not, in our view, impact on the final outcome. There appears to be a general political consensus that Brexit does mean Brexit, but we feel there could be slippage beyond the original timetable which expected to see the UK leave the EU by March 2019.

2017 elections in The Netherlands (March), France (April/May), and Germany (October/November) will complicate the Brexit negotiation process and timeline at a time when Brexit is more important for the UK than it is for the remaining 27 Member States

The question still remains, what does Brexit look like?

While there may be acceptance among politicians that the UK is leaving the EU, there is far from any agreement on what our future relationship with the continent should be.

So, what do we expect based on what has happened so far?

Existing EU legislation will remain in force

We expect that the Government will introduce a "Repeal Act" (repealing the European Communities Act of 1972 that brought us into the EU) in early 2017.

As well as undoing our EU membership, this will transpose existing EU regulations and legislation into UK law. We welcome this recognition of the fact that so much of UK law is based on EU rules and that trying to unpick these would not only take many years but also create additional uncertainty.

Taking back control is a priority

It appears that the top priority for government is 'taking back control', specifically of the UK's borders. Ministers have set out proposals ranging from reducing our dependence on foreign doctors or cutting overseas student numbers. The theme is clear: net migration must fall.

Leaving the Single Market appears likely

The tone and substance of Government speeches on Brexit, coupled with the wish for tighter controls on immigration and regulation, suggest a future where the UK enjoys a much more detached relationship with the EU.

Potential existing examples for the UK's future relationship, such as the 'Norwegian' or 'Swiss' models, seem out of the question. The UK wants a 'bespoke deal'.

Given the rhetoric coming from Europe, our view is that this would signal an end to the UK's membership of the Single Market. With seemingly no appetite to amend the four key freedoms required for membership, the UK appears headed for a so-called 'Hard Brexit'. It is possible that the UK will seek a transitional arrangement, to give time to negotiate the details of our future trading relationship.

Brexit (continued)

This is of course, all subject to change, and, politics, especially at the moment, moves quickly.

Where does this leave the public sector?

After a relatively stable summer, we expect there will be increased volatility as uncertainty grows approaching the formal negotiation period.

Planning can help organisations reduce the impact of Brexit

The chancellor has acknowledged the effect this may have on investment and signalled his intention to support the economy, delaying plans to get the public finances into surplus by 2019/20.

We expect that there will be some additional government investment in 2017, with housing and infrastructure being the most likely candidates.

Clarity is a long way off. However, public sector organisations should be planning now for making a success of a hard Brexit, with a focus on:

Staffing – organisations should begin preparing for possible restrictions on their ability to recruit migrant workers and also recognise that the UK may be a less attractive place for them to live and work. Non-UK employees might benefit from a degree of reassurance as our expectation is that those already here will be allowed to stay. Employees on short term or rolling contracts might find it more difficult to stay over time.

Financial viability – public sector bodies should plan how they will overcome any potential shortfalls in funding (e.g. grants, research funding or reduced student numbers).

Market volatility – for example pension fund and charitable funds investments and future treasury management considerations.

International collaboration – perhaps a joint venture or PPP scheme with an overseas organisation or linked research projects.

For regular updates on Brexit, please see our website:

http://www.grantthornton.co.uk/en/insights/brexit-planning-the-future-shaping-the-debate/

grantthornton.co.uk