

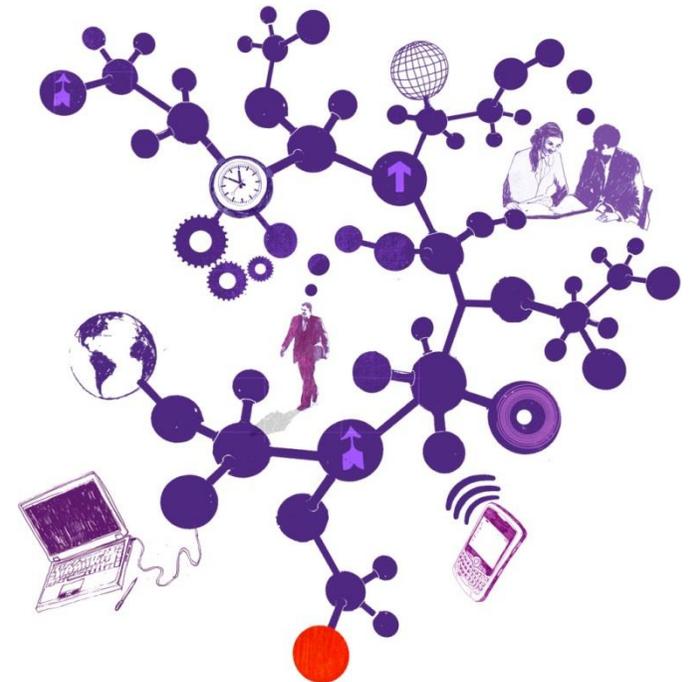
Update for Wiltshire Police and Crime Commissioner and Chief Constable Independent Audit Committee

Year ended 31 March 2015

March 2015

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Introduction

This paper provides the Independent 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 questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Independent 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:

- Local Government Pension Schemes Governance Review, a review of current practice, best case examples and useful questions to assess governance strengths
- 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
- Working in tandem, local government governance review 2014, our third annual review, assessing local authority governance, highlighting areas.

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 March 2015

Work	Planned date	Complete?	Comments
<p>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's (PCC) financial statements and the Chief Constable's 2014-15 financial statements.</p>	April 2015	Not yet due	We have partly undertaken the planning stage of the audit and will complete the audit plan in March/April in advance of the next audit committee.
<p>Interim accounts audit Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the PCC's and Chief Constable's 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. 	March 2015	In progress	<p>We commenced our interim visit on 9 March. Our interim review is in progress. We will complete early testing (testing to month 9) on operating expenses, other revenues, journals and employee remuneration. The findings from the results of our interim work will be reported to the next audit committee as part of our audit plan.</p> <p>We have discussed the approach to joint operations with your finance team.</p>
<p>2014-15 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2014-15 financial statements • proposed opinion on the PCC's financial statements and the Chief Constable's financial statements • proposed Value for Money conclusion. 	July to September 2015	Not yet due	The actual timing of our work will be agreed with the Chief Finance Officer.

Progress at 9 December 2014

Work	Planned date	Complete?	Comments
Value for Money (VfM) conclusion The scope of our work to inform the 2014-15 VfM conclusion comprises: <ul style="list-style-type: none">• A review of whether the organisation has proper arrangements in place for securing financial resilience• A review of whether the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	January to August 2015	Not yet due	

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. We have issued hard copies of this report to senior officers.

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 police bodies 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 senior management. Accountants and their auditors should start working on this now.

Top tips for police bodies:

- 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 for consideration

- How are you planning 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 police bodies 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. Police bodies with investments in 'other entities' will need to consider whether:

- they control any entities using the new definition. police bodies 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 parties and any other relevant facts and circumstances. Appendix B to IFRS 11 provides further explanation and examples of joint operations and joint ventures.
- Police bodies 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 police bodies 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. Police bodies 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.

Local government financial reporting remains strong

Local government guidance

The Audit Commission published its report, [Auditing the Accounts 2013/14: Local government bodies](#), on 11 December. This report included reference to Police and Crime Commissioners and Chief Constables.

Financial reporting was consistently strong for most types of principal body 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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