

Local Audit Code and Guidance Team  
National Audit Office  
Yellow 4  
157-197 Buckingham Palace Road  
London  
SW1W 9SP

Email: [Andrew.Kendrick@nao.gsi.gov.uk](mailto:Andrew.Kendrick@nao.gsi.gov.uk)

30th September 2015

## **RESPONSE TO CONSULTATION ON DRAFT GUIDANCE TO LOCAL EXTERNAL AUDITORS ON THEIR VALUE FOR MONEY ARRANGEMENTS WORK**

Dear Mr Kendrick

This submission from the Police and Crime Commissioners Treasurers' Society (PACCTS) is in two parts - the first section contains key points and general observations, while the second part answers the individual questions posed by the consultation. This is a society-approved submission from PACCTS, which by definition reflects a view across England and Wales. I would also refer the National Audit Office (NAO) to individual submissions of our members reflecting the perspective from their local areas.

### **Section 1: Key points and General Observations**

Coping with the major challenge each force faces as a result of both the overall scale and timing of grant cuts over the short to medium term is the most significant financial risk facing every force. It would be therefore be inconceivable that this was not equally treated as a major risk area by the External Auditor in framing their opinion on the organisation's approach to secure Value For Money (VFM). Up to now in the Police setting, the External Auditor has been able to rely to some extent on the work of Her Majesty's Inspector of Constabulary (HMIC), although the extent may vary between the Firms.

As a result of the consultation proposals, but also the interpretation of other regulators impacting on the Auditor (i.e. The Financial Reporting Council - FRC), we would be greatly concerned by the implication that the External Auditor has to extend their own independent assurance work, as a result, rather than rely as they see fit on the assurance work being undertaken by another statutory scrutiny function in HMIC. The impact of this is two-fold. First, extensive duplication is inevitable with all the costs involved; second, there is the strong probability of individual auditors applying different criteria and subjective judgements, compared to local HMIC. That is not in the public interest. In addition the scope for considerable national disparity in interpretation between individual firms and HMIC is high. The logical solution is for one of the statutory agencies to have lead responsibility for addressing the question of VFM arrangements and the other being allowed to rely on it. The choice of lead agency in that context would need to reflect appropriate skill-sets.

We also consider it vital that the skills and experience required to undertake a VFM audit in the future, be it by the Auditor or HMIC, be significantly strengthened. This is key of the scope of such audits is to be widened and more importance attributed through the HMIC PEEL assessment to the results. It must also crucially add value to the audited body, not just be purely a tick box exercise.

The HMIC “PEEL” assessments of each force comprise extensive work on Efficiency, Effectiveness and Legitimacy and we suggest it would be extremely useful for the NAO to work with HMIC to produce police specific guidance to External Auditors, which ensures there a fully joined up approach with HMIC on the assessment of VFM. The two approaches need to be aligned. The PEEL assessments require forces to produce Management Statements, giving extensive details of coverage of their responsibilities across many areas. The relationship between the Management Statements, the Annual Governance Statement and risk assessments by HMIC and Auditors alike needs to be resolved. There is also a potential difference in the timetable for the two bodies’ work as the PEEL assessments are published in February each year and the Auditor forms a view on VFM as part of the opinion in September currently which will be accelerated to July in 2017. Another reason as to why the two bodies’ work needs to be aligned is to minimise any extra work by the Auditor to be able to meet the new shorter timetable for giving his VFM opinion from 2017.

We support the focus on a risk based approach to the Auditor’s work. However we have two significant concerns. Firstly, as highlighted above, the need for alignment as opposed to duplication with the (statutory) work of the HMIC but this also includes NAO guidance helping to manage if not ensure consistent interpretations by the FRC. Secondly, it is important to be clear about what VFM actually means, what assurance the auditor is giving and the nature of supporting evidence. The current code asks about the organisation’s arrangements to secure VFM without presuming there is only one given or accepted approach and it is important that remains the key sentiment. As PACCTS in our setting – being subject to funding uncertainty and a high profile service - we are concerned that the draft guidance concerning “sustainable resource deployment” could induce overly simplistic tests of VFM, along the lines that not having a detailed saving plan for the next 4 years, by 2016/17, is somehow grounds for a potential qualification of the VFM opinion. Rather, the focus should be on the nature of planning, supply and demand, with an accepted need for relative certainty in plans in the near term compared to the medium term. In addition, we suggest economy and efficiency in use of resources, and supporting measures, also need to be examined (particularly the use of HMIC VFM profiles). Hitherto, our members have found that both HMIC and the Auditor tend to major on sustainability.

As mentioned in the third paragraph above, it is vital HMIC and the auditors have a deep holistic understanding of VFM and excellent skills to add value to our organisations.

## **Section 2: Answers to individual questions**

### **1. Do you agree with the proposal to align the approach with that of an assurance engagement designed to give reasonable assurance, consistent with the principles of the International Framework for Assurance Engagements?**

Yes (but see general comment above).

### **2. Do you have any comments on the scope of proper arrangements as described in the draft AGN? If you think the scope of proper arrangements could be improved, please provide details.**

Our comments, in Section 1, set out the need for a clearer definition of VFM work, a better appreciation of dependency on national resource planning timetables such as Spending Reviews and the roles of the Auditor, their regulator (the FRC), HMIC and indeed the policing body, in evidencing VFM. Our suggestion is that either HMIC or the Auditor leads on VFM work locally rather than the two bodies operating independently. We are very concerned otherwise that there will be duplication and indeed more work for the policing body. The “PEEL assessments” by HMIC are very onerous for the policing body and a good example of possible duplication is the requirement to produce a Force Management Statement, an Annual Governance Statement and

an Annual Report. It would be very helpful if the NAO and HMIC begin to look at aligning the VFM landscape overall.

**3. Do you have any comments in respect of the approach to the auditor's risk assessment?**

For Police bodies, this should also include Social Services Inspection reports, Ofsted, Care Quality Commission and Ministry Of Justice, Inspections including probation replacements and prisons. There is now significant co-commissioning and joint delivery, joint ownership of assets and cognisance has to be taken of the wider view, especially in the remit of Safer Communities, Child Sexual Exploitation and Safeguarding.

**4. Do you agree that the illustrative risks included in the AGN are helpful? If yes, are there any further illustrative examples of significant risks that could be usefully included?**

We are concerned that the draft guidance concerning "sustainable resource deployment" could introduce overly simplistic tests of VFM, along the lines that not having a detailed saving plan for the next 4 years, by 2016/17, is somehow grounds for a potential qualification of the VFM opinion. Rather, the focus should be on the nature of planning, supply and demand, with an accepted need for relative certainty in plans in the near term compared to the medium term. In addition, the Auditor needs to consider progress against the HMIC reports and any risks identified under the PEEL assessment. Efficiency and effectiveness also need to be assessed as well as financial sustainability.

The organisation's own risk register will be a key source of data. There are strong links with workforce planning, interdependences with local partnerships and the fact that the policing service is often the public service of last resort picking up other bodies responsibilities, which affect the pace at which downsizing can be achieved. It will also be important to assess the efficiency and effectiveness of partner arrangements and collaborations, particularly joint asset developments, co-commissioning, and co-leadership. Also there are risks in the wider environment, which may impact on the policing body such as the ability of partners and neighbouring organisations to deliver services and their performance.

**5. Do you have any comments on the wording of the overall criterion against which the subject matter will be evaluated?**

We would suggest instead something along the lines of " In all significant respects, and in the context of the reasonably available income and expenditure certainty, the audited body has a robust medium term strategy and takes fully informed decisions to maximise the delivery of economic, efficient, and effective services to local people and taxpayers, within estimated resources". A key point is that currently the External Auditor's statutory VFM opinion is focussed on the year just completed i.e. the year of the Statement of Accounts. It needs to be more forward looking.

**6. Do you have any comments on the proposed sub-criteria which link to the description of proper arrangements in the draft AGN? If you think the sub-criteria could be improved, please provide details.**

See general observations about the need to avoid inducing simplistic tests of sustainable resource planning. Also see answer to question 5. Economy, efficiency and effectiveness should be evaluated as sub-criteria.

**7. Do you think that the expanded section on reporting will help audited bodies to get more value out of the work auditors undertake on VFM arrangements?**

We are concerned it may increase work for the Auditor, and as it stands, resulting in duplication and inconsistency with little added value to the Audited Body, given the extensive work and reporting by HMIC. One or other has to be deemed lead.

**8. Do you agree that enhancing guidance about the relevant considerations for auditors when deciding whether to issue a qualified or unqualified conclusion will help improve consistency and ensure that relevant issues are reported?**

Yes but providing the reality of funding certainty, and thus local planning certainty, being a function of national SR processes, is better recognised.

**9. Do you agree with the proposal to maintain the supporting information separately from the statutory guidance set out in the draft AGN?**

Yes.

**10. Are there any other ways in which you think the guidance could be further strengthened or improved?**

See our general comments under Section 1.

We hope this response is helpful and we would be very pleased to work with you and HMIC to develop the guidance. Our key wish is that VFM work be fully aligned across the two agencies. We would also wish our response to be regarded as confidential at this stage given the fact that we have made comments about the work of a third party i.e, the External Auditing firms, and HMIC. However we would be happy that our response be shared with these bodies once the NAO had considered our comments and in the event that you agree with them.

Yours sincerely

A handwritten signature in black ink, appearing to read 'S J Nolan', with a small flourish at the end.

Sean Nolan  
PACCTS President