

The Annual Audit Letter for the Police and Crime Commissioner for the West Midlands and the Chief Constable for the West Midlands

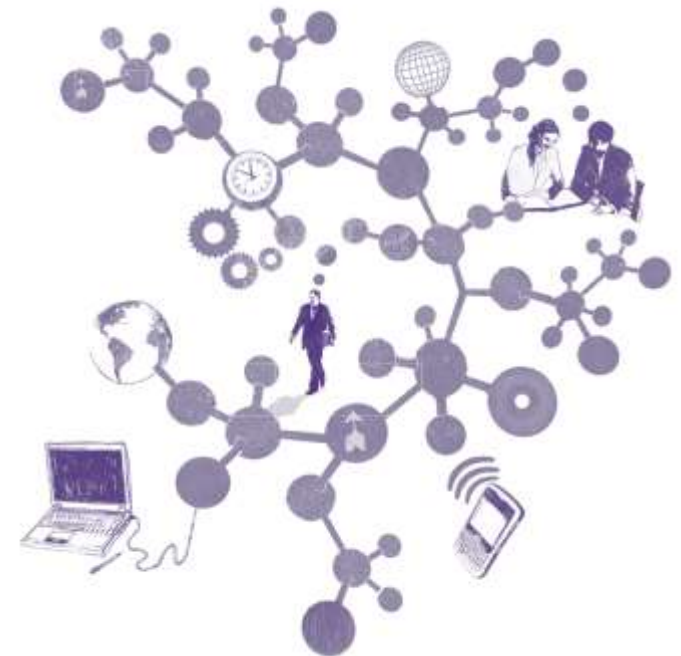
Year ended 31 March 2017

October 2017

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Contents

Section	Page
1. Executive summary	3
2. Audit of the accounts	4
3. Value for Money conclusion	7
Appendices	
A Reports issued and fees	12

Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out for the West Midlands Police and Crime Commissioner ('the PCC') and West Midlands Chief Constable and the financial statements of the group, the PCC and the Chief Constable for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the PCC and the Chief Constable and their external stakeholders, and highlights issues we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the PCC and the Chief Constable (as those charged with governance) in meetings which took place in July 2017 and September 2017 and in our Audit Findings Report which was issued in September 2017.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the PCC and the Chief Constable's financial statements (section two)
- assess the PCC and the Chief Constable's arrangements for securing economy, efficiency and effectiveness in their use of resources (the value for money conclusion) (section three).

In our audit of the PCC and the Chief Constable's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the PCC and the Chief Constable's financial statements on 29 September 2017.

Value for money conclusion

We were satisfied that the PCC and the Chief Constable put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources during the year ended 31 March 2017. We reflected this in our audit opinions issued on 29 September 2017.

Whole of government accounts

We completed work on the PCC and Chief Constable's consolidation return following guidance issued by the NAO and issued an unqualified report on 29 September 2017.

Certificate

We certified that we had completed the audit of the accounts for the PCC and the Chief Constable in accordance with the requirements of the Code on 29 September 2017.

We would like to take this opportunity to record our appreciation for the assistance provided by management, the finance team and other officers in both the office of the PCC and the police force during our audits.

Grant Thornton UK LLP
October 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the PCC and the Chief Constable's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the PCC and the Chief Constable's accounts to be £11.372 million, which is 2% of the gross revenue expenditure of the West Midlands Chief Constable. We used this benchmark as, in our view, users of the PCC and the Chief Constable's accounts are most interested in how the PCC and Chief Constable have spent the income they have received from taxation and grants during the year.

We set a lower threshold, of £568,000, above which we reported errors to the PCC and Chief Constable in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the PCC and the Chief Constable's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the PCC and the Chief Constable and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Our audit approach was based on a thorough understanding of the PCC and the Chief Constable's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	Relevant to PCC / Chief Constable	Work completed	Assurance gained and issues arising
<p>Valuation of pension fund net liability</p> <p>The Local Government Pension Scheme (LGPS) pension net liability as reflected in the balance sheet, and asset and liability information disclosed in the notes to the accounts, represent significant estimates in the financial statements.</p> <p>The Police Officer Pension schemes pension fund liability as reflected in the balance sheet and notes to the accounts represent significant estimates in the financial statements.</p> <p>These estimates by their nature are subject to significant estimation uncertainty, being very sensitive to small adjustments in the assumptions used.</p>	Both	<p>We performed the following work:</p> <ul style="list-style-type: none"> • Identification of the controls put in place by management to ensure that the pension fund liability is not materially misstated. Assessment of whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • Review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. Gain an understanding of the basis on which the valuation is carried out. • Procedures to confirm the reasonableness of the actuarial assumptions made. • Review of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work did not identify any material issues in respect of the valuations of the pension funds.</p> <p>We identified a small number of amendments were required to the pension fund disclosure notes in both sets of financial statements.</p> <p>These amendments had no impact on the primary statements.</p> <p>There remain significant issues in respect of the Force's pensions member data, which is detailed further in our 'Internal controls' section.</p>
<p>Valuation of property, plant and equipment</p> <p>The PCC revalues its assets every five years, with interim reviews of the asset base performed on an annual basis.</p> <p>The Code requires that the PCC ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	PCC	<p>We performed the following work:</p> <ul style="list-style-type: none"> • review of management's processes and assumptions for the calculation of the estimate; • review of the competence, expertise and objectivity of any management experts used; • discussion with the valuer of the basis on which the valuation is carried out and challenge of the key assumptions; • review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding; • review of the instructions issued to valuation experts and the scope of their work; • testing of revaluations made during the year to ensure they are input correctly into the PCC's asset register; and • evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. 	<p>Our audit work did not identify any material issues in respect of property, plant and equipment valuations.</p> <p>Although not considered to indicate a risk of material misstatement, approximately £38m of assets had £nil NBV at the end of the year (predominantly IT assets [£14,795k] and Vehicles [£10,772k]).</p> <p>One recommendation relating to the Useful Economic Lives of assets has been included in the Joint Action Plan at Appendix A.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the PCC, Group and the Chief Constable's accounts on 29 September 2017.

The accounts were made available for audit in line with the agreed timetable, and a good set of working papers was provided to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the PCC and the Chief Constable and to their Joint Audit Committee in September 2017, and to the PCC and Chief Constable directly in meetings in July and September 2017.

The draft financial statements for the group for the year ended 31 March 2017 recorded net expenditure on the provision of services of £181,836k; the audited financial statements show the same. We have recommended a number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the PCC's and Chief Constable's financial statements are below:

- we identified during the 2015/16 financial year that the Police Pension Scheme member data was inaccurate. This is a significant issue that has not yet been fully resolved. Reconciliations of the data held in the pension system are still ongoing. Whilst we are satisfied that this issue has no impact on the pension liability disclosed in the PCC's and Chief Constable's balance sheets for 2016/17, we had to amend our approach and undertake additional work in testing the Pension Fund Account. This issue, if unresolved, could result in material misstatements in future years, as the actuaries rely on accurate member data for their triennial revaluations. The next triennial revaluation is due in 2017/18;
- the finance team and other members of staff have been open and transparent with the audit team in regard to issues followed up from previous years; and
- the accounts were prepared to a good standard with relatively few amendments required and the accounts were supported by good quality working papers.

Annual Governance Statement and Narrative Report

We are required to review the PCC and the Chief Constable's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Based on our review of the PCC's and Chief Constable's Narrative Reports and AGSs we are satisfied that they are consistent with the audited financial statements. We are also satisfied that, following the amendments made to both the PCC and the Chief Constable's AGSs so that more detail was included regarding IT issues reported in year, the AGSs meet the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Reports are in line with the requirements of the CIPFA Code of Practice.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the PCC and the Chief Constable and with our knowledge of the PCC and the Chief Constable.

Whole of Government Accounts (WGA)

We carried out work on the PCC and the Chief Constable's consolidation schedule in line with instructions provided by the NAO. We issued a group assurance certificate which did not identify any issues for the group auditor to consider.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the PCC and the Chief Constable's accounts and to raise objections received in relation to the accounts.

There are no other matters which we, as auditors, are required by the Act and the Code to communicate to those charged with governance.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work. Our risk assessment is a dynamic process and we have had regard to new information which emerged since we issued our Audit Plan.

We initially identified five areas of risk that we would focus on to reach our VfM conclusion. Our on-going risk assessment identified two further risks. These related to the arrangements leading up to the decision for investment in the two largest projects within the WMP2020 programme:

- Operating Policing Solution
- Data Driven Insight

The key risks we identified and the work we performed are set out in the tables overleaf.

We agreed a number of recommendations with the PCC and Chief Constable to address our findings.

Overall VfM conclusion

We are satisfied that in all significant respects the PCC and the Chief Constable each put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources for the year ending 31 March 2017.

Value for Money

Risk identified	Work carried out	Findings and conclusions
<p>1. Police and Crime Plan</p> <p>The new Police and Crime Plan to cover the four years 2016 to 2020 was published in 2016/17 following a major consultation with the public and scores of meetings with partner agencies and third sector organisations, to make sure it reflects the ambitions of local people.</p> <p>The headline messages include a new focus on young people, reducing re-offending, tackling mental ill-health and supporting the economy, whilst also continuing to deal with complex threats like cyber crime and terrorism and tackling traditionally 'hidden crimes' such as domestic abuse, hate crime and child sexual exploitation. The recruitment of 200 specialist staff to deal with these particular fields will help to achieve that. Neighbourhood policing remains a top priority and the Commissioner's plan supported by the recruitment of 800 new police officers and 150 PCSOs.</p> <p>Key to the delivery of the plan will be how well aligned the force's delivery arrangements are to the requirements of the plan and the effectiveness of the processes and arrangements in place to monitor, measure and report progress within both WMPCC and the Force.</p>	<ul style="list-style-type: none"> Reviewed the arrangements in place for the implementation and delivery of the new Police and Crime Plan. Reviewed the processes and arrangements in place between WMPCC and the Force to ensure alignment with the Plan priorities. Reviewed the understanding of the cost of implementation of the Police and Crime Plan and the effectiveness of the measures in place to identify progress and achievement of delivery. Assessed governance and oversight arrangements for effectiveness. 	<p>We reviewed the arrangements in place to support both the PCC and Chief Constable's management of the Police and Crime Plan. A number of recommendations were made, but the evidence enabled us to conclude that the risk was sufficiently mitigated and the PCC and Chief Constable each has proper arrangements.</p>
<p>2. WMP 2020</p> <p>The WMP 2020 Programme vision is to prevent crime, protect the public and to help those in need. From the way in which the public contact the force to how they respond, investigate and prevent re-offending, the programme is designed to radically overhaul all aspects of West Midlands policing with people and technology at its heart. Transition State 1 (TS1) occurred on 28 November 2016 and was the first step towards achieving the WMP 2020 vision, seeing a significant reorganisation of WMP core policing functions.</p> <p>WMPCC and the Force will evaluate progress and if necessary, adapt plans. The effectiveness of this evaluation and actions taken in response to this will be key to strengthening the Force's resilience and capability to prevent harm. The partnership with Accenture UK is a fundamental part of the delivery of this vision.</p>	<ul style="list-style-type: none"> Assessed progress and delivery of TS1. Reviewed the Force's evaluation of progress and any actions which are taken as a result of this. Examined the extent to which WMP 2020 is aligned to the vision and objectives of the Police and Crime Plan. 	<p>We reviewed the arrangements in place for delivering WMP 2020. A number of recommendations were made, but the evidence enabled us to conclude that the risk was sufficiently mitigated and the PCC and Chief Constable each has proper arrangements.</p>

Value for Money

Risk identified	Work carried out	Findings and conclusions
<p>3. Portfolio management arrangements</p> <p>WMP 2020 includes a rigorous approach to tracking and monitoring benefits. Benefits are both financial and non-financial. Any changes to the original business case are managed through a formal change control process.</p> <p>Our review last year identified that business cases were not always robust and therefore potential financial benefits had eroded substantially. We also identified that SROs did not have the training and support to undertake early review of expected benefits to inform their individual performance targets and an agreed delivery profile. Strengthening PMO arrangements is key to driving the benefits from WMP 2020 and maximising the value, both financial and non-financial.</p>	<ul style="list-style-type: none"> Assessed progress and development from the position in Summer 2016. Assessed understanding of global cost and benefit of the transformation programme and ownership of benefits within the portfolio. Examined dependencies and links from the Target Operating Model to the current portfolio of programmes and projects and examine any gaps. Assessed whether clear, achievable benefits have been outlined in new business cases and whether adequate ownership has been assigned to those responsible for planning and managing the achievement of these programmes. 	<p>We reviewed the arrangements in place for reporting from the Portfolio Management Offices. A number of recommendations were made, but the evidence enabled us to conclude that the risk was sufficiently mitigated and the PCC and Chief Constable each has proper arrangements.</p>
<p>4. Benefits realisation of major change programmes</p> <p>WMP 2020 and the Target Operating Model are predicated on major transformation programmes delivering radical changes to the way in which services are delivered. This includes a number of key projects, which are significant both in scale and financial terms.</p> <p>Delivery of financial benefits is as key as the operational transformation benefits. We will assess the extent to which benefits are being articulated and delivered against plans.</p>	<ul style="list-style-type: none"> Reviewed the project management and risk assurance frameworks established by the PCC and the Force to establish how they are identifying, managing and monitoring key risks. Updated our understanding of the benefits of current major change programmes. Considered reasons where benefits have eroded or not been realised in line with plan. 	<p>We reviewed the arrangements in place for managing the benefits realisation of major change programmes. A number of recommendations were made, but the evidence enabled us to conclude that the risk was sufficiently mitigated and the PCC and Chief Constable each has proper arrangements.</p>

Value for Money

Risk identified	Work carried out	Findings and conclusions
<p>5. Medium term financial strategy</p> <p>The current government has stated that future police funding is protected. Despite this, West Midlands Police still faces real-term reductions in its budgets and will be required to make further savings in future years. The total funding allocated for 2017/18 is 1.3% lower than in 2016/17 for West Midlands. The PCC has taken a decision to increase the precept by £5 in line with the Council Tax referendum limit principles together with the prudent use of reserves to balance the budget.</p> <p>It is forecast that £20.7 million of reserves will be needed to balance the revenue budget in 2017/18. Therefore, the Budget Reserve which is estimated to have a balance of £17 million will be used to balance the revenue budget in 2017/18 with any remaining unfunded balance being funded from the Budget Resilience Reserve which has a balance of £25.5 million.</p> <p>It is anticipated that the total resources for police and crime commissioners nationally, including government grant and council tax income will remain roughly at the 2015/16 levels throughout the period up until 2019/20. With insufficient reserves to continue to support the financial gap, the PCC and the Force need to ensure they have clarity about the income, costs and benefits associated with various 'business as usual' services as well as on-going major change programmes.</p> <p>The robustness of the medium term financial strategy and the assumptions made within this is a crucial part of delivering sustainable policing services which meet the needs of the local population. Identification of budget shortfalls and the associated actions to address these is fundamental.</p>	<ul style="list-style-type: none"> • Examined the MTFS and plans to understand the budget, investment and benefits profile. • Reviewed progress and delivery of planned savings in 2016/17. • Looked at financial management information to assess whether this is supporting and driving change appropriately. • Assessed alignment of WMP 2020 priorities with the communication of outcomes and achievability of savings. 	<p>We reviewed the arrangements in place to support the medium term financial strategy. A number of recommendations were made, but the evidence enabled us to conclude that the risk was sufficiently mitigated and the PCC and Chief Constable each has proper arrangements.</p>

Value for Money

Risk identified	Work carried out	Findings and conclusions
<p>6. Operating Police Solutions (OpPolSol) investment decision</p> <p>The OpPolSol investment decision represents a significant investment of funds. As part of our work on value for money, we reviewed the arrangements in place within WMP regarding the evaluation leading up to the decision for this investment. This represents a significant decision for a material amount of money, and carries significant risk.</p> <p>The purpose of our review is to support us in considering whether WMP has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p>	<ul style="list-style-type: none"> • Gained an understanding of the background to the Operating Policing Solution decision • Reviewed the supporting papers, key decisions and other supporting rationale through review of minutes • Reviewed the financial information presented to those making the decision • Reviewed relevant benchmarking information used to inform the decision • Reviewed the options appraisal, evaluation and the documentation of the judgements informing the decision 	<p>We reviewed the arrangements in place to support the evaluation of the decision to invest in this project. A number of recommendations were made, but the evidence enabled us to conclude that the risk was sufficiently mitigated and the PCC and Chief Constable each has proper arrangements.</p>
<p>7. Data Driven Insights (DDI) investment decision</p> <p>The DDI investment decision represents a significant investment of funds. As part of our work on value for money, we reviewed the arrangements in place within WMP regarding the evaluation leading up to the decision for this investment. This represents a significant decision for a material amount of money, and carries significant risk.</p> <p>The purpose of our review is to support us in considering whether WMP has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p>	<ul style="list-style-type: none"> • Gained an understanding of the background to the DDI decision • Reviewed the supporting papers, key decisions and other supporting rationale through review of minutes • Reviewed the financial information presented to those making the decision • Reviewed relevant benchmarking information used to inform the decision • Reviewed the options appraisal, evaluation and the documentation of the judgements informing the decision 	<p>We reviewed the arrangements in place to support the evaluation of the decision to invest in this project. A number of recommendations were made, but the evidence enabled us to conclude that the risk was sufficiently mitigated and the PCC and Chief Constable each has proper arrangements.</p>

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Police and Crime Commissioner audit	42,368	TBC	42,368
Chief Constable audit	22,500	TBC	22,500
Total audit fees (excluding VAT)	64,868	TBC	64,868

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). Additional work was undertaken in respect of the new significant risks identified during our work to support our value for money conclusion, and in respect of the errors in the Force's pensions member data. We will discuss an appropriate fee variation with management in respect of this additional work. Fee variations are subject to approval by Public Sector Audit Appointments Ltd.

Reports issued

Report	Date issued
Audit Plan	March 2017
Audit Findings Report	September 2017
Annual Audit Letter	October 2017

Fees for other services

Service	Fees £
Audit related services:	
• None	0
Non-audit services:	
Tax Advisory Services – tax helpline annual subscription	1,500
Advice relating to VAT treatment on vehicle disposals	14,000

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the PCC and the Chief Constable. The table above summarises all other services which were identified.
- We have considered whether other services might be perceived as a threat to our independence as the PCC or the Chief Constable's auditor and have ensured that appropriate safeguards are put in place, as set out in the Audit Findings Report.

The above non-audit services are consistent with the PCC and Chief Constable's policy on the allotment of non-audit work to your auditor and have been approved by the PCC and Chief Constable (as those charged with governance)



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