



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

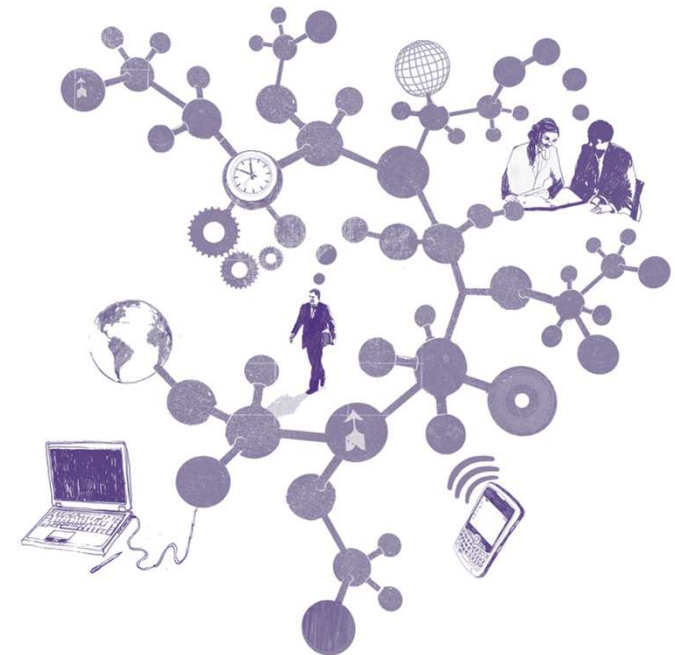
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**Year ended 31 March 2013**

October 2013

**John Gregory**  
Director  
T +44 (0)121 232 5333  
E [john.gregory@uk.gt.com](mailto:john.gregory@uk.gt.com)

**Joan Barnett**  
Manager  
T +44 (0)121 232 5399  
E [joan.m.barnett@uk.gt.com](mailto:joan.m.barnett@uk.gt.com)



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## Section 1: Executive summary

**01. Executive summary**

**02. Audit of the accounts**

**03. Value for Money**

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# Executive summary

## **Purpose of this Letter**

Our Annual Audit Letter ('Letter') summarises the key findings arising from the following work that we have carried out at the Office of the Police and Crime Commissioner (PCC) and also the Chief Constable for the year ended 31 March 2013:

- auditing the 2012/13 accounts; (Section two)
- auditing the Whole of Government Accounts submission (relevant to the PCC only); (Section two) and
- assessing the PCC's and the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three)

The Letter is intended to communicate key messages to the both the PCC and the Chief Constable and external stakeholders, including members of the public. We reported the detailed findings from our audit work on both entities to the Joint Audit Committee in the Audit Findings Report on 25 September 2013. The Audit Findings Report was also provided to the PCC and the Chief Constable as those charged with governance.

## **Responsibilities of the external auditors and the PCC and the Chief Constable**

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

The PCC and the Chief Constable are responsible for preparing and publishing their accounts, both accompanied by an Annual Governance Statement. They are also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued to the PCC and to the Chief Constable on 26 June 2013 and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

## **Audit conclusions for the Police and Crime Commissioner**

The audit conclusions which we have provided in relation to 2012/13 are as follows:

- an unqualified opinion on the accounts which give a true and fair view of the PCC's financial position as at 31 March 2013 and his income and expenditure for the year
- an unqualified conclusion in respect of the PCC's arrangements for securing economy, efficiency and effectiveness in his use of resources; and
- an unqualified opinion on the Whole of Government Accounts submission

## **Audit conclusions for the Chief Constable**

The audit conclusions which we have provided in relation to 2012/13 are as follows:

- an unqualified opinion on the accounts which give a true and fair view of the Chief Constable's financial position as at 31 March 2013 and his income and expenditure for the year; and
- an unqualified conclusion in respect of the Chief Constable's arrangements for securing economy, efficiency and effectiveness in his use of resources.

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## **Key areas for the PCC's attention**

We summarise here the key messages arising from our audit for the PCC to consider as well as highlighting key issues facing him in the future.

The most significant aspect of the audit this year, which has been extensively debated nationally, has been the accounting for pension costs and liabilities. In the absence of prescriptive guidance, national thinking developed between the production of the draft accounts and their finalisation, which led to pension costs and liabilities being transferred from the PCC accounts to the Chief Constable accounts, reflecting the degree of control which the latter has in the deployment of police resources.

The fundamental changes in leadership and governance arrangements which took place following the PCC elections have had a significant impact on our audit as we have been required to consider the changes in reaching our value for money conclusion. We are satisfied that the transition was effective, although we recognise that arrangements are continuing to evolve.

Looking forward, the implementation of stage 2 will mean further changes in governance arrangements which may have to be reflected in the 2013/14 accounts. We will work with the police sector to ensure that the accounting impact of changes is considered at a much earlier stage than happened in 2012/13.

The financial pressures facing the PCC are set to continue, with savings of £126m required by 2014/15 and considerable uncertainty regarding funding levels beyond this point. While there is a history of strong financial management in the former police authority and to date under the PCC, the scale of these new challenges is unprecedented.

The PCC and Chief Constable are currently procuring a partner to assist with the development and implementation of a major change programme which will aim to improve efficiency primarily through improved use of technology. It is an unusual procurement exercise because of the nature of the proposed partnership, but a successful outcome is vital to realising the vision of the change programme and the contribution it can make to the financial situation.

## **Key areas for the Chief Constable's attention**

We summarise here the key messages arising from our audit for the Chief Constable to consider as well as highlighting key issues facing him in the future. The points made above in relation to the accounts, stage 2 and the change programme also apply to the Chief Constable.

The changes in governance arrangements have had less of a direct impact on the Chief Constable but where changes have been made in response to the election of the PCC and the Chief Constable's designation as a 'corporation sole', these have been implemented effectively overall.

The financial pressures facing the PCC inevitably have a major impact on the Chief Constable as many of the savings opportunities involve the deployment of police resources. Meeting this challenge will require the PCC and Strategic Police and Crime Board to work effectively with the Chief Constable in the context of the overall level of funding available to the PCC.

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## **Acknowledgements**

This Letter has been agreed with the Chief Finance Officer to the PCC and to the Chief Finance Officer to the Chief Constable and was sent to the PCC and to the Chief Constable in October 2013. It will be presented to the Joint Audit Committee on 4 December 2013.

We would like record our appreciation for the assistance and co-operation provided to us during our audit by the PCC's and the Chief Constable's staff.

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## Section 2: Audit of the accounts

01. Executive summary

02. Audit of the accounts

03. Value for Money

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# Audit of the accounts - PCC

## **Audit of the accounts**

The key findings of our audit of the PCC's accounts are summarised below:

## **Preparation of the accounts**

The PCC presented us with draft accounts on 30 June 2013, in accordance with the national deadline. The accounts were based on developing accounting practice at that time. Appropriate working papers were made available from the start of the audit fieldwork, which commenced on 9 July 2013.

This was a challenging year for police finance teams who needed to invest considerable time and effort in preparing separate financial statements for the PCC and for the Chief Constable which reflected developing local governance and working arrangements and emerging accounting guidance. We recognise this was not an easy task and commend the finance teams for presenting the accounts on time for audit.

Despite these difficulties the quality of working papers supporting the draft accounts was good and finance staff responded promptly to audit queries.

## **Issues arising from the audit of the accounts**

As was the case with the majority of police audits, the presentation of the accounts was been updated to reflect the accountancy profession's views on the content of the Group, the PCC, and the Chief Constable's accounts. Finance Staff responded well to this challenge providing us with updated accounts along with details supporting working papers promptly.

Our audit work identified a small number of insignificant adjustments to the accounts resulting in the outturn and balances changing by a total of £1.7m from those reported in the draft accounts.

A small number of other amendments were made to the accounts. The most significant of these was an adjustment of £10m between short term investments and cash and cash equivalents to correctly disclose a deposit maturing within 3 months of the balance sheet date as a short term investment, along with the amended cash flow statement. An adjustment was also made between short term debtors and creditors of £6m to adjust for the opening collection fund balances. We also agreed a number of amendments to improve the presentation of the accounts.

## **Annual Governance Statement and Annual Report**

We found that the Annual Governance Statement was prepared in accordance with the Chartered Institute of Public Finance's requirements.

The Annual Governance Statement reflected the governance arrangements put in place by the PCC to ensure he discharged his governance responsibilities appropriately. The Statement reflected the circumstances of a transitional year and reflected the work to be done to further enhance the arrangements in place.

The Annual Report reflected both the activities of the former Police Authority as well as the PCC for the year and provided readers with a good synopsis of the PCC's forward plans.

## **Conclusion**

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' who is the PCC. We also presented our report to the PCC and the Chief Constable's Joint Audit Committee on 25 September 2013 and summarise only the key messages in this Letter.

We issued an unqualified opinion on the PCC's 2012/13 accounts on 30 September 2013, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the accounts give a true and fair view of the PCC's financial position and of the income and expenditure recorded by him.



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# Audit of the accounts – Chief Constable

## **Audit of the accounts**

The key findings of our audit of the Chief Constable's accounts are summarised below:

## **Preparation of the accounts**

The Chief Constable presented us with draft accounts on 30 June 2013, in accordance with the national deadline. The accounts were based on developing accounting practice at that time. Appropriate working papers were made available from the start of the audit fieldwork, which commenced on 9 July 2013.

We repeat our message from the preparation of the PCC's accounts in commending the finance team for presenting the accounts on time, and for the quality of working papers provided and their prompt response to our queries.

## **Issues arising from the audit of the accounts**

As was the case with the majority of police audits, the presentation of the accounts was been updated to reflect the accountancy profession's views on the content of the Group, the PCC, and the Chief Constable's accounts. Finance Staff responded well to this challenge providing us with updated accounts along with details supporting working papers promptly.

Other than the addition of further notes and clarification to explain the revised presentation, no other changes were made to the Chief Constable's accounts.

## **Annual Governance Statement**

We found that the Annual Governance Statement was prepared in accordance with the Chartered Institute of Public Finance's requirements.

The Annual Governance Statement reflected the governance arrangements put in place by the Chief Constable to ensure he discharged his governance responsibilities appropriately.

The Statement reflects the financial challenges facing the Chief Constable against the increasing need to provide a sustained and improved service to the public. It also reflects the actions being taken by the Chief Constable to successfully deliver a good service to the public within the financial constraints.

## **Conclusion**

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' who is the Chief Constable. We also presented our report to the Chief Constable's and the PCC's Joint Audit Committee on 25 September 2013 and summarise only the key messages in this Letter.

We issued an unqualified opinion on the Chief Constable's 2012/13 accounts on 30 September 2013, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the accounts give a true and fair view of the Chief Constable's financial position and of the income and expenditure recorded by him.

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## Section 3: Value for Money

01. Executive summary

02. Audit of the accounts

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# Value for Money

## Scope of work

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the PCC and the Chief Constable have each made proper arrangements for securing economy, efficiency and effectiveness in their use of resources. We are also required by the Audit Commission's Code of Audit Practice to report any matters that prevent us being satisfied that the audited bodies have put in place such arrangements. The result of this work is the Value for Money conclusion, which we give separately based on our assessment of each body's arrangements.

We have undertaken our audits in accordance with the Code of Audit Practice and, having regard to the guidance issued by the Audit Commission, we have considered the results of the following for both bodies:

- our review of the Annual Governance Statements
- the work of other relevant regulatory bodies or inspectorates, to the extent the results of the work have an impact on our responsibilities

## Key findings for the PCC

### Review of the Annual Governance Statement

We are satisfied that the Annual Governance Statement reflects the arrangements in place and has identified the areas where work will be done to further embed specific arrangements.

### Work of other relevant regulatory bodies

The HMIC Budget Preparedness visit in September 2012 recognised a well established budget development process based on prudent assumptions and taking account of different funding scenarios. Governance options and decision making processes for how the PCC might hold the Chief Constable to account continued to develop and it was recognised that it was for the elected PCC to decide which governance options to adopt.

## Overall VFM conclusion for the PCC

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the PCC put in place proper arrangements to secure economy, efficiency and effectiveness in his use of resources for the year ending 31 March 2013.

## Key findings for the Chief Constable

### Review of the Annual Governance Statement

We are satisfied that the Annual Governance Statement reflects the arrangements in place and has identified the risks where focus is needed to ensure the continued ability to deliver effective policing.

### Work of other relevant regulatory bodies

HMIC's inspection work did not identify any matters that impact on our Value for Money conclusion. Their inspection reflected the strong response of West Midlands Police to the challenges of the spending review whilst at the same time improving its performance.

## Overall VFM conclusion for the Chief Constable

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Chief Constable put in place proper arrangements to secure economy, efficiency and effectiveness in his use of resources for the year ending 31 March 2013.

# Appendices

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## Appendix A: Reports issued and fees

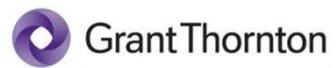
We confirm below the fees charged for the audits

### Fees

	Per Audit plan £	Actual fees £
Police and Crime Commissioner Audit	63,000	63,000
Chief Constable Audit	30,000	30,000
<b>Total audit fees</b>	<b>93,000</b>	<b>93,000</b>

### Reports issued

Report	Date issued
Audit Plans	26/6/2013
Audit Findings Reports	25/9/2013
Annual Audit Letter	October 2013



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