

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

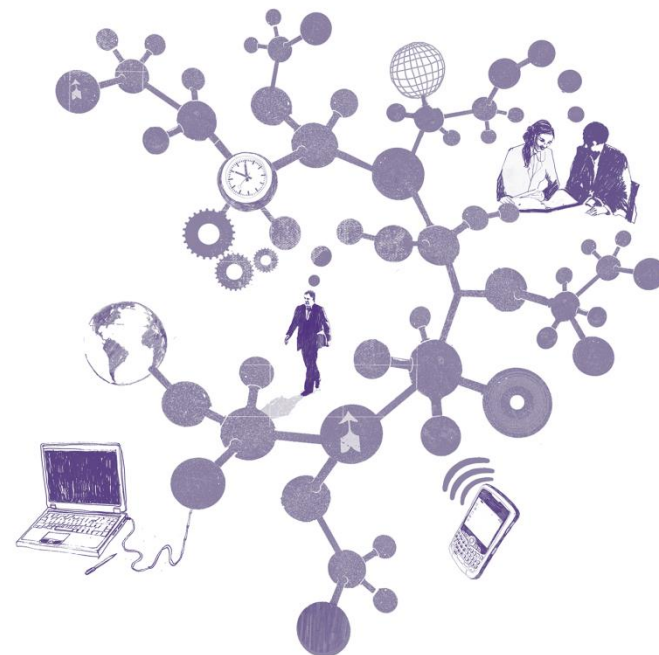
Year ended 31 March 2015

22 October 2015

Paul Grady
Engagement Lead
T 020 7728 2301
E paul.d.grady@uk.gt.com

Simon Turner
Manager
T 0121 232 5373
E simon.a.turner@uk.gt.com

Lorraine Connor
In Charge Auditor
T 0121 232 5257
E lorraine.connor@uk.gt.com



Contents

Section	Page
1. Key messages	3
Appendices	
A Key issues and recommendations	
B Summary of reports issued and audit fees	

Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out for the Police and Crime Commissioner for the West Midlands ("PCC") and the Chief Constable for the West Midlands ("Chief Constable") for the year ended 31 March 2015.

The Letter is intended to communicate key messages to the PCC, Chief Constable and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the joint Audit Plan that we issued on 23 March 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.

Financial statements audit (including audit opinion)

We reported our findings arising from the audit of the financial statements in our Audit Findings Report to the PCC and the Chief Constable in September. We also reported our findings to their joint Audit Committee. Overall, the draft financial statements presented for audit were of a high quality and were well supported. Only a limited number of adjustments were identified during the course of our audit. These related to disclosure and presentation issues only. The most significant adjustments that were made were as follows:

- The presentation of intra-group funding from the PCC to the Chief Constable was updated in the Comprehensive Income and Expenditure Statements (CIES) for both organisations so as to present this funding within the net cost of services.
- The PCC's CIES was updated to reflect the pensions top-up grant and other specific sources of funding which are received by the PCC and passed on to the Chief Constable. The receipt of this income and its transfer to the Chief Constable were not previously recognised in the PCC's Income and Expenditure Statement.

The other key issue which arose during the audit was in respect of pensions for retired police officers. Following the Milne vs. GAD Employment Appeal Tribunal ruling, additional lump sum payments fall liable to retired police officers. These additional costs, which should be accounted through the Police Officer Pension Fund, will be matched by additional top-up grant funding from the Home Office. The Chief Constable considered they were unable to accurately determine the value of the liability and therefore did not account for this liability within their financial statements. In their judgement, the information did not exist to enable them to calculate a reasonable estimate for this liability, nor did they believe it possible for this evidence to be reasonably obtained or calculated to enable a provision for this liability to be accounted for within the financial statements. The Chief Constable disclosed this matter as a contingent liability and disclosed the critical judgements that led to this accounting decision within their financial statements.

We issued, on 30 September 2015, an unqualified opinion on both the PCC's financial statements and the Chief Constable's financial statements, for the year ended 31 March 2015, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements for both organisations give a true and fair view of both the PCC's and Chief Constable's financial positions, and of the income and expenditure recorded by both the PCC and Chief Constable.

Key messages

Value for Money (VfM) conclusion

In common with other police forces, West Midlands Police (WMP) faces a significant challenge of working within a substantially reducing budget whilst continuing to deliver a vital public service. The medium-term financial plan identifies a need for WMP to make savings amounting to £121 million over the next five years, approximately 20% of the current budget. The Chief Constable and PCC are both committed to exploring new and innovative ways of working to achieve this. In response to the scale of the fiscal challenge, both organisations agreed that significant transformation was required. They were also of the view that transformation on such a scale would be best supported by a long-term contract with a private-sector 'innovation and integration partner' (IIP). The contract was awarded to Accenture in July 2014.

Our work assessed the arrangements in place in both organisations in responding to the significant financial challenge and ensuring resources are prioritised appropriately, in order to meet the challenge of reducing budgets whilst, as a minimum, maintaining operational effectiveness in service provision. We found that:

- overarching arrangements in place are appropriate and in many cases demonstrate good practice.
- the financial reality over the medium to long term is well understood and the organisations' response to the fiscal challenge is considered, and of an appropriate scale and ambition
- the roadmap supporting the Transformation portfolio is well designed and considered
- there is a clear strategic direction, understood by all parties
- programme and project governance structures are, on the whole, appropriate and many of the assumptions in place supporting the strategic medium term financial plan are reasonable and up-to-date
- there is a clear Portfolio reporting cycle from programmes, projects and the overall portfolio in monthly, quarterly and annual (financial outturn review) intervals, which is appropriate

There is scope for improvement in residual areas and our recommendations are set out in Appendix A. In particular:

- as assumptions in the medium term financial plan are revisited to take account of recent announcements over likely increased funding cuts, this should be accompanied by consideration as to whether the existing programmes of work remain sufficient to close the fiscal gap.
- there is scope to improve the quality of individual project level business cases
- programme governance structures, on the whole, are good, although there is scope to enhance the assurance function of the programme management office
- there is scope to improve the quality of the reporting format to the programme boards and oversight forums.

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 both the PCC and Chief Constable have each put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources for the year ending 31 March 2015.

Key messages continued

Whole of Government Accounts	We reviewed the consolidation pack which the PCC and Chief Constable prepared to support the production of Whole of Government Accounts. We reported that the pack was consistent with the audited financial statements.
Audit fee	Our fee for 2014/15 was £86,490, excluding VAT, which was in line with our planned fee for the year and was unchanged from the previous year. Further detail is included within appendix B.

Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2014/15 audit.

No.	Issue and recommendation	Priority	Management response
1.	<p>Issue: Our testing identified that 2 overtime payments to employees, out of a sample of 19, were not supported by an authorised overtime card.</p> <p>Recommendation: Ensure all overtime is recorded on the official overtime card and ensure that all overtime cards are retained.</p>	High	<p>Management response: Management agree with this recommendation and will review processes to ensure they are sufficiently robust and that all overtime is recorded on official overtime cards. Management will also ensure that overtime is only input when it has been approved by an appropriate line manager and that overtime is only paid where it has been claimed following the correct procedures. Overtime input is now being completed within the payroll department and this team will be advised around the correct processes for input and payment of overtime.</p> <p>This will be the responsibility of the pensions and payroll manager and will be implemented by October 2015.</p>
2.	<p>Issue: The latest version of the Medplan assumes total Home Office grant reductions of 16.3% over the period from 2015/16 to 2019/20. Although this was a reasonable assumption at the time the Medplan was put together, it may be prudent to revise this assumption in light of the Chancellor's July 2015 budget speech, which suggested reductions of up to 40% may be required.</p> <p>Recommendation: Revisit the assumptions in the Medplan to take account of the latest information in respect of likely funding reductions and pressures, in particular in light of the Chancellor's July 2015 budget speech, which suggested reductions of up to 40% may be required.</p>	Medium	<p>Management response: The Medium term financial plan (Medplan) is regularly reviewed and refreshed in light of all new funding announcements. A 2016-17 Medplan has been produced in draft form and incorporates all announcements up to and including the Chancellor's July 2015 budget speech. This will be further updated when the autumn statement is announced.</p>

Appendix A: Key issues and recommendations (continued)

No.	Issue and recommendation	Priority	Management response
3.	<p>Issue: It is important to ensure there is appropriate alignment and correlation between accountabilities for project delivery, and the levers of control that influence project delivery. Programme managers, as WMP employees, are able to make decisions that affect projects. If Accenture are to be held to account for overall project delivery, it is important they are able to influence decisions made by WMP employees that impact the projects for whose delivery they are being held to account.</p> <p>Recommendation: Ensure accountabilities for project delivery are aligned with the levers of control and decision making which can influence projects.</p>	Medium	<p>Management response: Management note this issue but we believe that this is already in place. We will continue to ensure that the West Midlands Police employees as project managers and Accenture staff work in partnership and Governance Boards have representatives from both West Midlands Police and Accenture.</p> <p>Head of Portfolio Management Office (PMO) to ensure that governance arrangements are robust.</p>
4.	<p>Issue: At a strategic level, arrangements are well considered, with a clear understanding by all parties of the strategic direction and overarching requirement. At a more detailed level, the quality of individual business cases has been weaker. It is important the Force satisfies itself there is consistency of expectation, between itself and its innovation partner, with regard to business case quality and the volume of resource input required for the contract sums payable.</p> <p>Recommendation: Ensure there is consistency of expectation regarding business case quality and the volume of resource needed to develop business cases.</p>	Medium	<p>Management response: Management have taken steps to ensure that the quality of outline and detailed business cases is consistent and robust. The business cases pass through a range of departmental ‘filters’ where elements of the case are challenged and the case is amended. Clearly, the quality of business cases is expected to improve as the force gains more experience in this field</p>

Appendix A: Key issues and recommendations (continued)

No.	Issue and recommendation	Priority	Management response
5.	<p>Issue: There is scope to streamline the volume of content and enhance the clarity of the key deliverables, requirements and benefits within the business case, to avoid mission-drift and ensure the understanding across all parties remains consistent and focused.</p> <p>Recommendation: Ensure individual business cases are streamlined and articulate key requirements and benefits concisely to aid decision making.</p>	Medium	<p>Management response: Management note that whilst a strong framework exists in which business cases are written, the process for refinement can be improved and this remains an iterative process. Key business benefits will be clearly defined in all detailed business cases. The business case template is also reviewed by the commissioning team on a 12 monthly basis and has already been streamlined since induction.</p>
6.	<p>Issue: Best practice dictates that business cases are revisited at key stages as projects progress, to update assumptions and refine estimates in light of new information. The Treasury Green Book 'five case model' is a commonly used best practice business case methodology in the public sector, and WMP may benefit from using or adapting this model for its own business case process.</p> <p>Recommendation: Ensure business cases are designed in such a way as to facilitate update at major gates within the projects</p>	Medium	<p>Management response: Management note this recommendation. We will review the design of business cases taking note of any learning opportunities from a range of other models. We currently use the MSP methodology which subsumed the Treasury Green Book 5 case model</p>

Appendix A: Key issues and recommendations (continued)

No.	Issue and recommendation	Priority	Management response
7.	<p>Issue: The Office of the PCC (OPCC) is represented at key meetings and has the right to attend any programme or project forum to represent the interest of the PCC and challenge assumptions e.g. impact of change on public confidence. The OPCC is of the clear view that such attendance is in the form of a non-executive "critical friend" role which aligns with the duty of the PCC to hold the force to account. However, there is a risk that lines of accountability could become blurred if other stakeholders consider that a decision is endorsed by the OPCC because one of its representatives has sat on a decision-making forum.</p> <p>Recommendation: Ensure the role of OPCC representatives when attending key programme meetings is clearly set out in committee meeting papers and minutes, to ensure lines of accountability and decision making status are clear to all stakeholders</p>	Medium	<p>Management response: Management notes this recommendation. The role of the OPCC representative should already be clarified within the terms of reference for the project. Where this is not the case the recommendation is accepted. This is the responsibility of both the PMO and OPCC.</p>

Appendix A: Key issues and recommendations (continued)

No.	Issue and recommendation	Priority	Management response
8.	<p>Issue: There is a clear Portfolio reporting cycle from programmes, projects and the overall portfolio in monthly, quarterly and annual (financial outturn review) intervals as appropriate. This is all very clear and proportionate to the task at hand. However, there is scope to improve the format of reporting to these committees and boards.</p> <p>Recommendation:</p> <ul style="list-style-type: none"> • Improve the quality of reporting templates to include progress against hard milestones, progress against benefits, key risks and issues, and key financial information including forecast against budget and variance explanations. • Ensure appropriate exception reports are generated. Project reports should be assured by the PMO prior to being submitted to the Board. 	Medium	<p>Management response: Management notes this recommendation. The reporting of project progress in financial and non-financial terms is continually being enhanced and refined. The recent reporting was highlighted as being really informative by the Deputy Chief Constable at OCB in August. Project reports will be assured by appropriate personnel before they are submitted to the board. Business case documents already pass through a screening process including accountancy before they are submitted to the project board.</p>
9.	<p>Issue: The governance structure contains most of the elements we would expect for an undertaking of this nature, The one element missing from the governance structure is the PMO. We consider that strengthening the PMO is essential if the programme is to effectively manage risks and deliver its intended benefits</p> <p>Recommendation: Strengthen the role of the PMO to ensure programme and project risks are effectively managed and assurance is provided proactively and effectively to the programme boards and oversight Forums</p>	Medium	<p>Management response: Management believe that there already exists a robust reporting and management process in place, which effectively reports into project boards and OCB. Project managers proactively manage on behalf of the Senior Responsible Owners. The Head of PMO regularly attends the corporate risk board and monthly meetings take place between the PMO and corporate risk manager</p>

Appendix B: Reports issued and fees

We confirm below the fees charged for the audit and non-audit services.

Fees for audit services

	Per Audit plan £	Actual fees £
Police and Crime Commissioner audit	56,490	56,490
Chief Constable audit	30,000	30,000
Total audit fees	86,490	86,490

Fees for other services

Service	Fees £
Audit related services	Nil
Non-audit related services (tax)	13,500

Reports issued

Report	Date issued
Audit Plan	23 March
Audit Findings Report	24 September
Annual Audit Letter	23 October



© 2015 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk