

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 2016

October 2016

Paul Grady
Engagement Lead
T 0207 728 2301
E paul.d.grady@uk.gt.com

Emily Mayne
Manager
T 0121 232 5309
E emily.j.mayne@uk.gt.com

Laurelin Griffiths
Executive
T 0121 232 5409
E laurelin.h.griffiths@uk.gt.com



Contents

Section	Page
1. Executive summary	3
2. Audit of the accounts	4
3. Value for Money conclusion	8
Appendices	
A Reports issued and fees	11

Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that 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 2016.

This Letter is intended to provide a commentary on the results of our work to the PCC and the Chief Constable and their external stakeholders, and to highlight issues that 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 in our Audit Findings Report to the PCC and the Chief Constable as those charged with governance and also to their Joint Audit Committee in September 2016.

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 its 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 30 September 2016.

Value for money conclusion

We were satisfied that the PCC and the Chief Constable put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 30 September 2016.

Whole of government accounts

We completed work on the Council/Authority's consolidation return following guidance issued by the NAO and issued an unqualified report on 21 October 2016.

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 21 October 2016.

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 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the PCC and the Chief Constable's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating 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 £11,998,000, which is 2% of 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 it has spent the income it has raised from taxation and grants during the year.

We set a lower threshold of £599,000, 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.

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	How we responded to the risk
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted for both the PCC and Chief Constable because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • for the PCC opportunities to manipulate revenue recognition are very limited as revenue is principally grant allocations from central and local government; • for the Chief Constable opportunities to manipulate revenue recognition are very limited as revenue is principally an inter-group transfer from the PCC, with no cash transactions; and • the culture and ethical frameworks of local authorities, including West Midlands PCC and Chief Constable, mean that all forms of fraud are seen as unacceptable. <p>Our audit work did not identify any issues in respect of revenue recognition.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • reviewed the journal control environment and not identified any significant control weaknesses. • tested key journal entries and not found any items which impacted on our opinion. • reviewed and challenged the accounting estimates, judgements and decisions made by management • reviewed any unusual, significant transactions and not identified anything which would impact on our opinion. <p>Our audit work did not identify any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries did not identify any significant issues.</p>
<p>Valuation of property, plant and equipment</p> <p>The PCC revalues its assets on a rolling basis over a five year period. 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>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate. • reviewed the competence, expertise and objectivity of any management experts used. • reviewed the instructions issued to valuation experts and the scope of their work. • discussed with the PCC's Valuer the basis on which the valuation was carried out, challenging the key assumptions. • reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding. • undertaken testing of revaluations made during the year to ensure they were input correctly into the PCC's asset register. • evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. <p>Our audit work did not identify any significant issues in relation to the risk identified. We raised two recommendations relating to property, plant and equipment and will be following up on progress against these in 2016/17.</p>

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	How we responded to the risk
<p>Valuation of pension fund net liability</p> <p>The Chief Constable's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented the key controls that were put in place by management to ensure that the pension fund liability is not materially misstated. • undertaken a walkthrough of the key controls to assess whether they were implemented as expected and mitigate the risk of material misstatement in the financial statements. • reviewed the competence, expertise and objectivity of the actuary who carried out the Chief Constable's pension fund valuation. • gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • reviewed 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>Review of GAD's actuarial report showed that actuarial transactions relating to the GAD vs Milne redress payments had not been included in the financial statements.</p> <p>These transactions were:</p> <ul style="list-style-type: none"> • an actuarial loss of £18,838,000, and • subsequent benefit payments of £18,041,000. <p>This led to an understatement of the pension fund liability of £797,000. These payments had been correctly included in the Police Pension Fund Account.</p> <p>The Chief Constable also made a prepayment to the LGPS in 2015/16 relating to the 2016/17 year. This prepayment was not treated correctly in the draft financial statements, leading to an understatement of both the pension liability and the pension reserve of £5,556,000, and to an erroneous "extraordinary liability" in the Balance Sheets of both the Chief Constable and the PCC.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the PCC and the Chief Constable's accounts on 30 September 2016.

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 2016.

The draft financial statements for the group for the year ended 31 March 2016 recorded comprehensive income of £957,888,000. The audited financial statements show comprehensive income of £951,534,000. This change is primarily driven by a number of complex and unusual pensions transactions which have led to misstatements in the financial statements

It was brought to our attention during the year that pension scheme member data was known to be inaccurate. Work has been undertaken by the pension team to confirm the inaccuracies present a low risk of material misstatement in the financial statements. The finance team and other members of staff have been open and frank with the audit team about these issues.

We identified 3 adjustments affecting the Chief Constable's reported financial position. These adjustments have a net impact on the group of £6,353,000. We also recommended a number of adjustments to improve the presentation of both the PCC and the Chief Constable's financial statements.

Annual Governance Statement and Narrative Report

We are also 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.

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 2015 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. The key risks we identified and the work we performed are set out on pages 9 to 16.

As part of our Audit Findings report agreed with the PCC and the Chief Constable and presented to their Joint Audit Committee in September 2016, we agreed a number of recommendations to address our findings. These will be followed up as part of the 2016/17 audit work and progress reported to the Joint Audit Committee.

Overall VfM conclusion

We are satisfied that in all significant respects the PCC and the Chief Constable put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Value for Money

Significant risk	Findings and conclusions
<p>Corporate Governance and Devolution</p> <p>Given the PCC elections and the impending changes driven by devolution we are keen to understand the impact this may have on the governance process and, in particular, preparations and plans that are being envisaged and put in place for change.</p> <p>Risk – <i>There may be weaknesses in the governance arrangements as a result of changes in management structures and overall strategic direction which impact on the significant transformational programme.</i></p>	<p>We reviewed the governance arrangements in place to support changes to the management structures and overall strategic direction, particularly where these impact on the significant transformational programme. 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>Overall vision and WMP 2020</p> <p>Since our last review a new Chief Constable has been appointed. Given this and the significant changes announced under the Autumn spending review we are keen to understand how this will affect the governance and road map for WMP2020.</p> <p>Risk – <i>As key factors driving the overall strategic direction of WMP2020 change, the transformational programme being delivered with AccentureUK may not adapt and be fully aligned.</i></p>	<p>We reviewed the arrangements in place for delivering the overall vision and WMP 2020. This enabled us to conclude that the risk was sufficiently mitigated and the PCC and Chief Constable each has proper arrangements.</p>
<p>Target Operating Model (TOM) & delivery</p> <p>WMP developed their TOM last year and identified a coherent set of programmes and projects to deliver it. This was augmented by a fast track '60 day accelerator' consisting of quick wins which should now give an indication of delivery and allow us to assess the effectiveness of the process.</p> <p>Risk – <i>the TOM may not be delivering the performance outcomes and/or savings required to demonstrate VFM. This may be an indication that decision making and reporting needs greater transparency to ensure the best VFM is being driven from the model.</i></p>	<p>We reviewed the arrangements in place for delivering the target operating model. 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>Financial Strategy</p> <p>The Medium Term Financial Strategy (MTFS) forecast a substantial savings challenge for 2015/16 which has been alleviated to some extent by the settlement in the Autumn Statement. The WMP2020 portfolio was developed to enact transformational change and close the savings gap. WMP appointed AccentureUK as their change partner to help deliver the Portfolio.</p> <p>Risk – <i>Whilst the latest financial settlement has reduced budget pressures, there is still a considerable investment to find to support and deliver the WMP2020. Failure to deliver savings and demonstrate achievement of operational performance targets will undermine the overall success of the project.</i></p>	<p>We reviewed the arrangements in place to support the financial strategy both in the medium and longer term. 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

Significant risk	Findings and conclusions
<p>People and Partnerships</p> <p>The PCC and the Force are actively developing working partnerships within the justice, community safety partnership, health sectors and others. We are keen to update our understanding of how these partnerships are developing and whether they are delivering benefits.</p> <p><i>Risk – Even with the new settlement we expect substantial change within the Force to be on-going. Management of change and staff wellbeing will be key to ensuring service delivery.</i></p> <p><i>Risk – Cultural differences between organisations & partners may be an obstacle to realising the full benefit of collaboration.</i></p>	<p>We reviewed the arrangements in place to support both the PCC and Chief Constable's management of staff and partnerships going forward. 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>Portfolio Management Office</p> <p>The Head of the Programme Management Office was in the process of developing a PMO function to improve the reporting and assurance for projects.</p> <p><i>Risk – inadequate standards, reporting and support from the PMO may result in poor decision making and VFM not being achieved.</i></p>	<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>

Appendix A: Reports issued and fees

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

Fees

	Budget £	Actual £
Police and Crime Commissioner audit	42,368	42,368
Chief Constable audit	22,500	22,500
Total audit fees (excluding VAT)	64,868	64,868

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016

Fees for other services

Service	Fees £
Non-audit services:	
Tax Advisory Services – tax helpline annual subscription	1,500

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.



© 2016 Grant Thornton UKLLP. All rights served.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UKLLP is a member firm of Grant Thornton International LTD (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL, and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grant-thornton.co.uk