

The Joint Audit Findings for West Midlands Police and Crime Commissioner and West Midlands Chief Constable

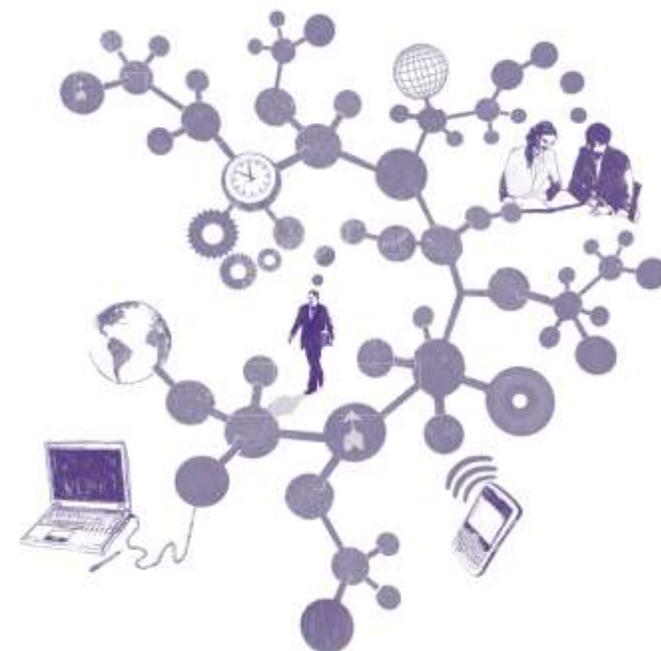
Year ended 31 March 2017

September 2017

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September 2017

Dear David and Dave

Joint Audit Findings for West Midlands Police and Crime Commissioner and West Midlands Chief Constable for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audits of the Police and Crime Commissioner and Chief Constable for the benefit of those charged with governance, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. For police bodies, those charged with governance are the Police and Crime Commissioner and the Chief Constable for the respective corporations sole. The contents of the report has been discussed with officers.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by management, the finance team and other staff during our audit.

Yours sincerely

Paul Grady
Engagement Lead

Chartered Accountants

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Contents

Section	Page
1. Executive summary	4
2. Audit findings	8
3. Fees, non-audit services and independence	28
4. Communication of audit matters	31
Appendices	
A Joint action plan	34
B Audit opinion in respect of the PCC's and Group financial statements	35
C Audit opinion in respect of the Chief Constable's financial statements	37

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of West Midlands Police and Crime Commissioner ('the PCC') and West Midlands Chief Constable (the 'Chief Constable' or 'the Force' or 'WMP'), and the preparation of the financial statements of the group, the PCC and the Chief Constable for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the PCC's and the Chief Constable's financial statements each give a true and fair view of the financial position of the respective bodies and their income and expenditure for the year and whether the financial statements have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the PCC and the Chief Constable acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the PCC and the Chief Constable have each made proper arrangements to secure economy, efficiency and effectiveness in their use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide conclusions whether in all significant respects, the PCC and the Chief Constable have each put in place proper arrangements to secure value for money through economic, efficient and effective use of their resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audits that in our opinion should be considered by the PCC or the Chief Constable or both, or brought to the public's attention (section 24 of the Act);
- statutory recommendations which should be considered by the PCC or the Chief Constable or both and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Joint Audit Plan dated March 2017.

Our audit is nearing completion. Our work is subject to the satisfactory completion of procedures in the following areas:

- evidence to support the nature of a potential £2.4m error noted in the police pension fund top up grant debtor;
- receipt and review of the final versions of the financial statements;
- obtaining and reviewing the management letters of representation;
- receipt and review of revised versions of the Annual Governance Statements;
- updating our post balance sheet events review, to the date of signing the opinion;
- final senior management quality reviews; and
- review of your Whole of Government Accounts return.

We received draft financial statements and accompanying working papers before the commencement of our on-site work, in accordance with the agreed timetable.

Key audit and financial reporting issues

Financial statements opinion

We have not identified any adjustments affecting the Chief Constable's or the PCC's reported financial position (further details are recorded in section two of this report). 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:

- it was 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 have 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;
- the accounts were prepared to a good standard with relatively few amendments required; and
- the accounts were supported by good quality working papers.

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the PCC's financial statements, including the group financial statements, which consolidate the financial activities of the Chief Constable (see Appendix B). We also anticipate providing an unqualified opinion in respect of the Chief Constable's financial statements (see Appendix C).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with each of the audited financial statements is consistent with the financial statements. This includes considering if the Annual Governance Statements do not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or are misleading or inconsistent with the information of which we are aware from our audits.

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, except for the issue noted on page 19 of this report, 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.

Controls

Roles and responsibilities

The PCC's and Chief Constable's management are responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the systems of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the PCC and Chief Constable.

Findings

We draw your attention in particular to control issues identified in relation to weaknesses in relation to IT, which we have reported in previous years. We also draw your attentions to issues in respect of pension scheme member data and nil-valued assets on the asset register.

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the PCC and Chief Constable each had proper arrangements in place to secure economy, efficiency and effectiveness in their use of resources.

Further detail of our work on Value for Money are set out in our separate VFM report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Further details of our work on other statutory powers and duties is set out in section four of this report.

The way forward

Matters arising from the financial statements audits and our review of the PCC's and Chief Constable's arrangements for securing economy, efficiency and effectiveness in their use of resources have been discussed with the Chief Finance Officer to the PCC and the Director of Resources for the Chief Constable, as well as with the PCC and Chief Constable as the two individuals charged with overall governance for the office of the PCC and the police force respectively.

We have made a number of recommendations, which are set out in the action plan at Appendix A, and in our separate VFM report. Recommendations have been discussed and agreed with management and those charged with governance, and their responses are included as appropriate.

Readiness for 2017/18 statutory deadlines

Management and the finance team have worked constructively with us throughout the year towards the achievement of the earlier close deadlines. The draft financial statements were provided to the audit team on 31 May 2017. This was 17 days earlier than in 2016, and in line with faster closedown plan to meet the earlier statutory deadline in 2017/18.

Were it not for the significant issues arising from the errors in your pension fund member data, and the consequent additional work we have been required to perform on the Police Pension Fund Account, the 2016/17 financial statements audit would have been completed by the end of July 2017.

It is critical that you ensure the errors and inaccuracies in the Police Pension Fund member data are resolved in advance of the actuarial valuation next year. Failure to do so could result in material misstatements in your accounts and an increased risk of missing the earlier deadlines next year.

Subject to the satisfactory resolution of this issue, we consider the team otherwise well placed to meet the new statutory deadlines in 2018.

Acknowledgement

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
September 2017

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Materiality

In performing our audits, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our Joint Audit Plan, we determined **overall materiality** for the financial statements as a proportion of the smaller of gross revenue expenditure of the PCC and the gross revenue expenditure of the Chief Constable. This was **£11,372k** (being 2% of gross revenue expenditure of the Chief Constable). We have considered whether this level remained appropriate during the course of the audits and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be **clearly trivial** to be **£568k**. This remains the same as reported in our Joint Audit Plan.

ISA 320 also requires auditors to determine separate, lower, materiality levels if there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have not identified any areas where separate materiality levels are required.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Joint Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Relevant to PCC / Chief Constable	Work completed	Assurance gained and issues arising
1	<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>	Both	<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>We have noted an issue relating to revenue being recognised directly in the financial statements of the Chief Constable. All revenues should be recognised by the PCC, who then passes it to the Chief Constable as part of the local funding arrangements.</p> <p>An adjustment has been agreed to reflect this income and expenditure in the PCC's Comprehensive Income and Expenditure Statement. This is detailed further on page 22 of this report. This adjustment has no impact on the income recognised by the Chief Constable.</p> <p>In addition, an historic discrepancy relating to the pension fund top up grant debtor has been noted. We are awaiting further information regarding this issue in order to assess whether you have adopted the appropriate treatment for it.</p> <p>Subject to the above, and the satisfactory completion of outstanding matters set out on page 5, our audit work has not identified any other issues in respect of revenue recognition.</p>
2	<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>	Both	<p>We have performed:</p> <ul style="list-style-type: none"> • a review of accounting estimates, judgments and decisions made by management; • A review of journal entry process and selection of unusual journal entries for testing back to supporting documentation; and • a review of unusual significant transactions. 	<p>Our audit work has not identified any evidence of management over-ride of controls.</p> <p>In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks continued

	Relevant to PCC / Chief Constable	Work completed	Assurance gained and issues arising
<p>3 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 have performed the following:</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 has not identified any issues in respect of the valuations of the pension funds.</p> <p>However, procedures have resulted in a small number of amendments 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 are also significant issues in respect of the Force's member data, which is detailed further in our 'Internal controls' section.</p>
<p>4 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 have performed the following:</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 has not identified any 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 PPE has been included in the Joint Action Plan at Appendix A.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Joint Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Relevant to PCC / Chief Constable	Work completed	Assurance gained & issues arising
Operating expenses	<p>Creditors understated or not recorded in the correct period</p> <p>(Operating expenses understated)</p>	Both	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • system documentation, identification and walkthrough of controls relevant to the operating expenses cycle; • substantive testing of a sample of operating expense transactions for the year; and • substantive testing over creditors and year end cut-off testing. 	<p>Review of the creditors balance highlighted that the PCC holds £2,822k of seized cash as a creditor on the balance sheet.</p> <p>Management should consider whether it is fair for this balance to be recognised as a creditor in its entirety, rather than as a provision or a contingent liability. This has been included as a recommendation in Appendix A.</p> <p>Subject to the above, and the satisfactory completion of outstanding matters set out on page 5, our audit work has not identified any significant issues in relation to the risk identified.</p>
Employee remuneration	<p>Employee remuneration accruals understated</p> <p>(Remuneration expenses not correct)</p>	Both	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • system documentation, identification and walkthrough of controls relevant to the employee remuneration cycle; • substantive testing of a sample of payroll expenditure transactions for the year; • testing the completeness of payroll expenditure by reconciling the payroll system to the general ledger and the accounts; • trend analysis and risk identification for monthly payroll costs; and • substantive testing of a sample of officer overtime payments. 	<p>Our detailed testing of payroll transactions has not identified any issues in respect of employee remuneration costs incurred.</p> <p>However, our audit work has highlighted disclosure issues relating to senior officers' remuneration and exit packages. These issues are detailed on page 26.</p> <p>Subject to the above, and the satisfactory completion of outstanding matters set out on page 5, our audit work has not identified any other significant issues in relation to the risk identified.</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

Transaction cycle	Description of risk	Relevant to PCC / Chief Constable	Work completed	Assurance gained & issues arising
<p>Changes to the presentation of local authority financial statements</p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>Both</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented and evaluated the process for recording the required financial reporting changes to the 2016/17 financial statements; review of the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure they are in line with internal reporting structures; review of the appropriateness of the revised grouping of entries within the Movement in Reserves Statement (MIRS); Testing of the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES; testing of the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger; testing the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements; and review of the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. 	<p>Our review of the restatement of the CIES for the purposes of 'Telling the Story' has not raised any issues. The segments disclosed are in line with our understanding of the management of the PCC and the Chief Constable.</p> <p>We have reconciled the CIES to the general ledger with no issues, and have confirmed the consistency of the MIRS and the EFA with testing performed on other areas of the financial statements.</p> <p>As mentioned on page 10 of this report, changes have been agreed to the way that revenues were allocated between the PCC and the Chief Constable.</p> <p>We also checked the consistency of the CIES and the EFA with management's internal reporting and decision making, and the outturn reported in the Narrative Reports. A few minor amendments have been made as a result of these checks.</p> <p>Our testing has not identified any other issues in respect of the new presentation.</p>

Audit findings against other risks continued

Transaction cycle	Description of risk	Relevant to PCC / Chief Constable	Work completed	Assurance gained & issues arising
Police Pensions Member Data	Member data not correct	Chief Constable	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • system documentation, identification and walkthrough of controls relevant to the member data cycle; • testing the reconciliation of changes in member data in the year; and • substantive testing of a sample of changes to member data (joiners, leavers and other amendments to the categorisation of individuals within the scheme). 	<p>Management is unable to provide us with accurate member data. We have been provided with a number of inconsistent figures, and management is unable to reconcile the movements between the April 2016 opening data to the March 2017 closing data.</p> <p>As a result of this, we have had to perform additional procedures to gain assurance over the accuracy of contributions to the schemes, and pension benefits paid from the schemes.</p> <p>Appendix A details management's response to our recommendation that they should perform work to ensure the member data held is accurate.</p>
Police Pensions Benefits Payable	<p>Benefits improperly computed</p> <p>Claims liability understated</p>	Chief Constable	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • system documentation, identification and walkthrough of controls relevant to the pensions benefits payments cycle; • testing the reconciliation of pension benefit payments recorded in the general ledger to subsidiary systems and interfaces; and • substantive testing of pension benefit payments made in the year, both monthly payments and lump sums. 	<p>Due to uncertainties in relation to the pension fund member data detailed above, we have been required to amend our audit approach and undertake additional substantive testing of pensions benefits payments.</p> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK&I) 570).

We have reviewed management's assessment of the going concern assumption for both the PCC and the Chief Constable and the disclosures in the financial statements. The PCC and the Chief Constable face significant financial challenges due to cuts in the grant they receive from the Home Office. Both organisations have a good understanding of the scale of this financial challenge over the medium-term. We have examined the reasonableness of the assumptions underlying this forecast, and the arrangements the PCC has in place to identify changes in those assumptions.

We do not consider there to be a material uncertainty which could cast doubt over either entity's ability to continue as a going concern. On this basis, we are satisfied that it remains appropriate for the PCC, the Chief Constable, and the group to prepare accounts on a going concern basis as at 31 March 2017.

Group audit scope and risk assessment

ISA (UK&I) 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Work completed	Assurance gained & issues raised
Police and Crime Commissioner (parent)	Yes	Comprehensive	Full scope UK statutory audit performed by Grant Thornton	The results of our audit work are detailed on pages 10 to 14, and misstatements and disclosure issues detailed on pages 23 to 27.
Chief Constable (subsidiary)	Yes	Comprehensive	Full scope UK statutory audit performed by Grant Thornton	The results of our audit work are detailed on pages 10 to 14, and misstatements and disclosure issues detailed on pages 23 to 27.

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the PCC's and Chief Constable's financial statements.

Area	Summary of policy	Comments	Assessment
<p>Revenue recognition</p>	<p>PCC</p> <p>The PCC has policies covering the recognition of revenues from the selling of goods and tendering of services, and from grants. The policies clarify when revenues:</p> <ul style="list-style-type: none"> are recognised as being due to the Group. from interest and other non-exchange transactions will be recognised. <p>Chief Constable</p> <p>There is no policy for revenue recognition as the Chief Constable is entirely funded by the PCC. There is a policy for the treatment of grants. It clarifies that specific revenue grants related to particular aspects of the Force's functions are shown as income in determining net expenditure.</p>	<p>Our reviews of accounting policies for both the PCC and Chief Constable have not highlighted any issues which we wish to bring to your attention.</p> <p>Policies are in accordance with the requirements of the Code of Practice for Local Government.</p>	<p style="text-align: center;"> Green</p>
<p>Judgements and estimates</p>	<p>PCC</p> <p>Key judgements and estimates are set out in notes 2 and 3 respectively and include:</p> <ul style="list-style-type: none"> the allocation of assets, liabilities, income and expenditure between PCCWM and CCWMP contingent liabilities; the impact of IFRS 13 on PPE valuations; PPE valuations and useful economic lives; and pensions liability valuations. <p>Chief Constable</p> <p>Key judgements and estimates are set out in notes 1 and 3 respectively and include:</p> <ul style="list-style-type: none"> the allocation of assets, liabilities, income and expenditure between PCCWM and CCWMP; and pensions liability valuations. 	<p>We have reviewed the PCC's and Chief Constable's judgements and estimates against the requirements of the Code of Practice on Local Authority Accounting.</p> <p>Where the PCC or Chief Constable has made judgements or estimates in the financial statements these have been supported with robust methodologies and clear explanation of the assumptions applied.</p> <p>As noted on page 10, an adjustment has been made to the PCC's Comprehensive Income and Expenditure Statement to reflect the fact that all revenues should be recognised by the PCC, who would then pass this to the Chief Constable as part of the local funding arrangements.</p> <p>As noted on page 12, a recommendation has been made in Appendix A that management reconsider whether the whether the PCC's accounting treatment of seized cash is reflective of the risk that it may be reclaimed.</p> <p>PPE valuations and pension liability valuations are considered separately on the next pages.</p>	<p style="text-align: center;"> Amber</p>

Assessment

● Marginal accounting policy which could potentially attract attention from regulators
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements continued

Area	Summary of policy	Comments	Assessment
<p>Judgements and estimates: Pension fund liability</p>	<p>PCC & Chief Constable</p> <p>Local Government Pension Scheme (LGPS)</p> <p>The LGPS is the pension scheme for police staff. This is a funded defined benefit scheme. The scheme is administered by the City of Wolverhampton Council.</p> <p>The liability showing the underlying long term commitment to fund future retirement benefits is shown on the relevant PCC and CC balance sheet with a corresponding Pension Reserve.</p> <p>Chief Constable (and Group) only</p> <p>Police Officers Pension Schemes</p> <p>The Chief Constable operates three pension schemes for police officers. These are:</p> <ul style="list-style-type: none"> the Police Pension Scheme, the 2006 Police Pension Scheme, and the 2015 Police Pension Scheme. <p>All of these schemes are unfunded defined benefit schemes.</p> <p>The financial liability for these schemes appears on the Chief Constable's Balance Sheet with a corresponding Pension Reserve.</p>	<p>For the LGPS and the three police pension schemes we have undertaken a review of the relevant actuaries' (Barnet Waddingham for LGPS and GAD for the police officer pension schemes) work to satisfy ourselves that the pension liabilities are fairly stated in the financial statements. In doing so we engaged our own independent actuary to assess the methodology and assumptions used by the schemes' actuaries.</p> <p>The pension fund liabilities are most sensitive to changes in the key assumptions of discount rate; mortality; inflation; and future salary increases.</p> <p>For both LGPS and the police officer pension schemes we have reviewed the assumptions used for each of these variables.</p> <p>For the police officer pension schemes our own independent actuary has confirmed that they are comfortable that the assumptions used by GAD are reasonable for the purpose of valuing the liabilities as at 31 March 2017.</p> <p>For the LGPS pension scheme we have compared the assumptions used by Barnett Waddingham against benchmarks provided by our own independent actuary. We note that the assumptions used in relation to the rate of inflation (CPI) and the discount rate are outside the range of those expected:</p> <ul style="list-style-type: none"> CPI inflation: 2.70% (average used by other actuaries: 2.26%) Discount rate: 2.80% (average used by other actuaries: 2.59%) <p>We have assessed these differences in aggregate, and are satisfied that the net effect of these assumptions on the valuation of the fund is in line with the net effect of assumptions made by other actuaries.</p> <p>In addition, our independent actuary has confirmed that they are comfortable that overall the assumptions used by Barnett Waddingham are reasonable for the purpose of valuing the liabilities as at 31 March 2017.</p> <p>For the LGPS pension scheme we have confirmed with the external auditor of the pension fund that the controls over membership data were operating as intended.</p> <p>For the three police schemes we have reviewed the information sent to the actuary ourselves and have found issues with the member data held, as detailed on page 14. However, we have received confirmation from GAD that this issue would have no impact on the valuation of the police pension fund liability for 2016/17, due to the approach taken for interim valuations.</p> <p>It is the issue with member data submitted to GAD that has led us to assess this estimate as amber. If this issue remains when GAD perform their next full valuation of the police pension schemes, this could lead to a significant error in the valuation of the liability in future years.</p>	<p style="text-align: center;">●</p> <p style="text-align: center; color: orange; font-weight: bold; font-size: 1.2em;">Amber</p>

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements continued

Area	Summary of policy	Comments	Assessment
<p>Judgements and estimates: Property, plant and equipment</p>	<p>PCC only</p> <p>The CIPFA Code requires that authorities revalue their land and building assets on a regular basis. The PCC no longer revalues its PPE assets on a 5-year rolling programme, but instead will instruct its valuer to perform a full valuation every 5 years, with intervening valuations performed only where there is considered to be a risk of material misstatement.</p> <p>The PCC engaged Gerald Eve, a firm of chartered surveyors to provide land and building valuations for financial reporting purposes.</p>	<p>We have undertaken a detailed review of the work performed by Gerald Eve to provide land and building valuations for financial reporting purposes.</p> <ul style="list-style-type: none"> We are satisfied from our review that the methodology and assumptions used by Gerald Eve were reasonable. We have considered the potential valuation movements for assets not revalued in year, and are satisfied that the overall valuation balances and movements were reasonable. <p>We are satisfied that the PCC's non-current assets are not materially misstated as at 31 March 2017.</p>	<p style="text-align: center;">●</p> <p style="text-align: center; color: green; font-size: 1.2em;">Green</p>
<p>Intra-Group funding arrangements and cost recognition</p>	<p>PCC</p> <p>The PCC accounts include an appropriate policy on intra-group funding arrangements and cost recognition.</p> <p>Chief Constable</p> <p>There is a policy on operating costs reflecting that costs are recognised to reflect the resourced consumed by the Chief Constable's direction and control. It reflects that an intra-group adjustment is made from the PCC to the Chief Constable as all expenditure is paid for by the PCC. The Chief Constable retains the costs and liabilities pertaining to IAS19 pension and accumulated absence employment transactions.</p>	<p>Our review of accounting policies for each of the PCC and Chief Constable has not highlighted any issues which we wish to bring to your attention.</p> <p>Policies are in accordance with the requirements of the Code of Practice for Local Government.</p>	<p style="text-align: center;">●</p> <p style="text-align: center; color: green; font-size: 1.2em;">Green</p>
<p>Other accounting policies</p>	<p>PCC & Chief Constable</p> <p>We have reviewed the PCC's and Chief Constable's policies against the requirements of the CIPFA Code of Practice. The accounting policies are appropriate and consistent with previous years.</p>	<p>Our review of accounting policies for each of the PCC and Chief Constable has not highlighted any issues which we wish to bring to your attention.</p> <p>Policies are in accordance with the requirements of the Code of Practice for Local Government.</p>	<p style="text-align: center;">●</p> <p style="text-align: center; color: green; font-size: 1.2em;">Green</p>

Assessment

● Marginal accounting policy which could potentially attract attention from regulators
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	We have previously discussed the risk of fraud with the Joint Audit Committee, the Chief Constable and the PCC. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	A standard letter of representation has been requested from each of the PCC and Chief Constable, including specific representations in respect of the Group.
5.	Confirmation requests from third parties	We requested from management permission to send confirmation requests to bank and investment counter-parties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
6.	Disclosures	Our review found no material omissions in the financial statements.
7.	Matters on which we report by exception	We are required to report by exception in the following areas: <ul style="list-style-type: none"> • If the Annual Governance Statements do not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or are misleading or inconsistent with the information of which we are aware from our audits • The information in the Narrative Reports is materially inconsistent with the information in the audited financial statements or our knowledge of the PCC and Chief Constable acquired in the course of performing our audit, or otherwise misleading. <p>In our opinion, additional detail regarding IT issues reported in year should have been included in both the PCC's and the Chief Constable's Annual Governance Statements in order to fully comply with disclosure requirements. Amendments have been made which allow us to conclude that the information now reported is consistent with the information of which we are aware from the audit.</p>
8.	Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the PCC Group exceeds the specified group reporting threshold of £350 million we are required to examine and report on the consistency of the WGA consolidation pack with the PCC Group's audited financial statements. This work is currently in progress, and is planned to be completed by the statutory deadline.

Internal controls

Assessment
 ● Significant deficiency – risk of significant misstatement
 ● Deficiency – risk of inconsequential misstatement

	Assessment	Issue and risk	Recommendations
1	●	A number of IT security weaknesses were identified as part of our audit. These are ongoing issues from previous years, and relate to controls such as user access rights, activity logging and password policies.	Management should take steps to address the IT issues found, particularly those relating to user access rights.
2	●	<p>Management is unable to provide accurate member data for its Police Pension schemes. We have been provided with a number of inconsistent figures, and management is unable to reconcile the movements from the opening April 2016 data to the closing 31 March 2017 data.</p> <p>Both management and ourselves therefore have little assurance that the member information held is correct.</p> <p>If this remains the case when GAD perform their next full valuation of the police pension schemes, this could lead to a significant error in the valuation of the liability in future years.</p>	Management should perform work to ensure the member data held is accurate. It is critical that you ensure the errors and inaccuracies in the Police Pension Fund member data are resolved in advance of the actuarial valuation next year. Failure to do so could result in material misstatements in your accounts and an increased risk of missing the earlier deadlines next year.
3	●	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>Management should review the assets in the balance sheet that have been fully depreciated and ensure they remain in use or, if they have been disposed of / are no longer in use, ensure they are removed from the fixed asset register.</p> <p>Management should consider the Useful Economic Lives being applied to assets for the purposes of depreciation, and ensure that they are satisfied that the lives remain appropriate.</p>

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Internal controls – review of issues raised in prior year

Assessment
 ✓ Action completed
 WIP Action in progress
 X Not yet addressed

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	WIP	<p>Our audit testing identified that overtime payments were not always supported by an authorised overtime card.</p> <p>Our testing also identified that overtime cards were being mislaid.</p> <p>We recommended that management should improve the controls in place in respect of overtime payments.</p>	<p>Our testing of a sample of 5 overtime payments in 2016/17 found no issues with regards to payments to employees that were not supported by an authorised overtime card.</p> <p>This issue is in the process of being addressed.</p> <p>Our recommendation in respect of this issue is included in the action plan attached at Appendix A</p>
2.	X	<p>A number of IT security weaknesses were identified as part of our audit. These are ongoing issues from previous years, and relate to issues such as:</p> <ul style="list-style-type: none"> • user access rights; • activity logging; and • password policies. 	<p>As detailed on the previous page, these on-going issues had not been addressed at the time of our audit work in 2016/17. The Force informs us that a large number of the issues will be addressed by the implementation of the new finance systems in July 2017.</p> <p>Our recommendation in respect of these issues is included in the action plan attached at Appendix A</p>
3.	✓	<p>During testing of employee remuneration and pension scheme member data there were a number of instances where appropriate supporting documentation could not be provided and alternative evidence had to be sought for the purposes of the audit.</p>	<p>Our testing of samples of employee remuneration expenditure and pension scheme member data movements in 2016/17 found no issues with regards to supporting documentation.</p> <p>This issue is considered to be addressed.</p> <p>However, significant issues have come to light with the underlying Police pensions member data, as detailed on page 14. A new recommendation has been made relating to this.</p>

Recommendations made in 2015/16 relating to the VFM work performed have been reviewed separately within the VFM report.

Adjusted misstatements – PCC and Group

A number of adjustments to the PCC's draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which management has agreed to amend in the accounts.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000
Revenues recognised directly by the Chief Constable		
All revenues should initially be recognised by the PCC and then form part of the funding passed to the Chief Constable during the year.		
There was a large balance showing as direct income in the Chief Constable's draft accounts which was in fact received by the PCC.		
Showing the substance of such transactions results in the following amendment to the PCC's CIES:		
increase in revenues recognised by the PCC	(80,535)	
additional funding to the Chief Constable recognised by the PCC	80,535	
This adjustment has no impact on the Group CIES.		
Overstatement of debtors and creditors in relation to NDR demands		
NDR demands for 2017-18 were entered into the ledger in March 2017. In an attempt to correct the overstatement in creditors, these were incorrectly recorded in debtors as a prepayment, rather than reducing the creditors balances. At the end of the year, only one month of twelve had actually been paid, and so the other eleven months were treated incorrectly, as they should have no impact on the 2016-17 accounts.		
Adjustment made as follows:		
reduction in creditor balances to other Local Authorities		4,185
reduction in prepayment balances with other Local Authorities		(4,185)
Overall impact	£nil	£nil

Unadjusted misstatements – PCC and Group

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. Those charged with governance are required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
Errors found during creditors testing			
Errors were noted during our testing of a sample of creditor items. We estimate that, if this error rate were consistent across the full creditors population, this would give a misstatement that would have the following impact:			
reduction in creditors balance		1,854	
reduction in expenditure in year	(1,854)		
Discussion of this error with finance staff has indicated that both instances were due to mistakes made by a temporary member of staff.			Due to the efforts already made to correct the underlying issue, management is satisfied that there is not a material error.
The finance team's quality control checks had noted that this individual had posted a number of incorrect entries at year end, and efforts had been made to correct these. By the finance team's estimations, £1.8m was posted into creditors by this individual, £0.9m of which was later reversed and corrected by other members of staff.			Management do not feel that it is appropriate to adjust, due to the estimated nature of this misstatement.
Overall impact	(£1,854k)	£1,854k	

Outstanding work - Historical error relating to the level of Pension Fund Top Up grant recognised

In addition to the above, discussions are ongoing at the time of writing this report relating to an inconsistency noted between the debtor balance recognised by the PCC for the outstanding element of the police pension fund top up grant and the notification from central government.

This is thought to be an historic error relating to incorrect revenue (and the related debtor) being recognised in the general ledger in a previous financial year. This debtor error has then rolled forwards, although the PCC has recognised correct revenue in each subsequent year. We are awaiting evidence to confirm that this is the case.

As this difference would not be material, it could be corrected in the current financial year by recognising additional income and an increased debtor of £2,391k.

This adjustment would have no impact on the revenue passed to the Chief Constable to balance the police pension fund.

Adjusted misstatements – Chief Constable

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

No adjustments to the Chief Constable's draft accounts have been identified during the audit process.

Unadjusted misstatements – Chief Constable

Those charged with governance are required to approve management's proposed treatment of all unadjusted misstatements.

No adjustments to the Chief Constable's draft accounts have been identified during the audit process.

Impact of uncorrected misstatements and estimation uncertainties (prior year)

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000
<p>Potential impact of the uncertainty relating to the Police Pension Scheme liability</p> <p>In the 2015/16 year, an issue was identified relating to deferred pensioner member data, which introduced uncertainty around the pension liability estimate for the Police Pension Schemes.</p> <p>The membership data submitted to GAD was inaccurate, with deferred pensioners overstated. At the time of our audit the potential impact of this error was estimated to be a decrease to the actuarial loss in 2015/16 of £6,518k, and a decrease in the pension liability of the same amount.</p> <p>At the time, management were not minded to amend the financial statement, as the estimated uncertainty was not material.</p> <p>The accuracy of member data has remained an issue during the 2016/17 audit, as detailed on page 14. As a result of the work performed by the pensions team and ourselves to address this issue, we have obtained assurances that issues with membership numbers would not impact on the pension liability valuation provided by GAD.</p> <p>We therefore remain satisfied that the pension scheme liability figures and actuarial valuation figures were not materially misstated in either the 2015/16 and 2016/17 financial statements.</p>	0	0
Overall impact	£nil	£nil

Misclassifications and disclosure changes – Chief Constable, PCC and Group

The table below provides details of misclassification and disclosure errors identified during the audit which management has agreed to amend in the final sets of financial statements.

	Relevant to PCC / Chief Constable	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	PCC	Disclosure	11	Related Party Transactions	A grant of £11k made to a related charity was material to that charity and therefore requires full disclosure in the PCC's financial statements.
2	PCC	Disclosure	(12,919)	Fair Value of Financial Instruments	The Fair Value of £78,780k disclosed for the PWLB debt held by the PCC in the draft financial statements was calculated on an incorrect basis. Management has agreed to amend these figures for both the current year (correct value £65,861k) and prior year (£71,500k adjusted to £60,183k) to reflect the requirements of 'Fair Value' presentation.
3	Both	Disclosure	(93)	Exit Packages	A number of amendments have been made to the Exit Packages notes in both the PCC's and Force's accounts in order to make the disclosures consistent with supporting records.
4	Chief Constable (& Group)	Disclosure	41	Senior Officers' Remuneration	Taxable benefits figures have been updated in the Chief Constable's Senior Officers' Remuneration disclosure (impacting on the Group's accounts through consolidation). The draft accounts were prepared using the previous year's figures, as the current year information was not yet available.
5	PCC	Disclosure	160	Members Allowances	Disclosure of Members' Allowances has been added in to the PCC's accounts, as this information was omitted in the draft financial statements.
6	Both	Disclosure	n/a	Expenditure and Funding Analysis (EFA)	In the draft financial statements the EFA was not consistent with the outturn reported in the Narrative Report. As the aim of the EFA is to reconcile the general fund position (as reported to management) to the accounting position (as reported in the CIES), adjustments have been made to the EFA to enable the reader to understand how the reported outturn reconciles to the income and expenditure recognised in the financial statements.

Misclassifications and disclosure changes (continued)

	Relevant to PCC / Chief Constable	Adjustment type	Value £'000	Account balance	Impact on the financial statements
7	Both	Disclosure	n/a	Contingent Liabilities	An additional contingent liability has been added to the financial statements disclosing the risk of potential liability as a result of the ongoing Hillsborough civil claim.
8	PCC	Misclassification	n/a	Short Term Debtors	The classification of short term debtors between types of counterparties has been amended as a result of inaccuracies found during WGA procedures. This adjustment has no impact on the overall value of short term debtors.
9	PCC	Misclassification	n/a	Short Term Creditors	The classification of short term creditors between types of counterparties has been amended as a result of inaccuracies found during WGA procedures. This adjustment has no impact on the overall value of short term creditors.
10	Both	Disclosure	n/a	Various	A number of other minor changes have been made to disclosure notes and accounting policies throughout the Financial Statements to improve accuracy, clarity and understandability, including the correction of a numerical typographical error on the face of the Group and PCC Cashflow Statement.

Section 3: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

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

Fees

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

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

Additional work, over and above that envisaged in the scale fee, arose during the year in respect of the pension scheme member data and in respect of additional risks identified as part of our VFM conclusion work. We will agree a revised fee with management in respect of this additional work. All fees are subject to agreement by the regulator, PSAA.

Fees for other services

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

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.

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table above summarises all other services which were identified.

Independence and other services

We have considered whether other services might be perceived as a threat to our independence as the PCC's and Chief Constable's auditor and have ensured that appropriate safeguards are put in place

	Service provided to	Fees	Threat?	Safeguard
Non-audit services				
Tax Advisory Services – tax helpline annual subscription	PCC	£1,500	No	<p>The fee in respect of this work is small in the context of the audit fee as a whole and will be non-recurring.</p> <p>This piece of work will be undertaken by a specialist tax team. The audit team will have no involvement in the work.</p> <p>We will not be taking the client's side in discussions. We will simply present the facts, relevant law and case law, and HMRC's guidance where appropriate when making technical submissions.</p> <p>We will not make firm recommendations which could lead to us effectively making decisions on behalf of management.</p>
Advice relating to VAT treatment on vehicle disposals	PCC	£14,000	No	<p>The fee in respect of this work is small in the context of the audit fee as a whole and will be non-recurring.</p> <p>This piece of work will be undertaken by a specialist tax team. The audit team will have no involvement in the work.</p> <p>We will not be taking the client's side in discussions. We will simply present the facts, relevant law and case law, and HMRC's guidance where appropriate when making technical submissions.</p> <p>We will not make firm recommendations which could lead to us effectively making decisions on behalf of management.</p>
TOTAL		£15,500		

Section 4: Communication of audit matters

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the PCC's and Chief Constable's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the PCC's and Chief Constable's key risks when reaching our conclusions under the Code.

It is the responsibility of the PCC and Chief Constable to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the PCC and Chief Constable are fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓
Significant matters in relation to the Group audit including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud.	✓	✓

Appendices

A. Joint action Plan

B. Audit opinion – Police and Crime Commissioner

C. Audit opinion – Chief Constable

Appendix A: Joint action plan

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1	<p>Police Pension data for the actuarial estimate</p> <p>Management should ensure that member data held in is accurate. It is critical that you ensure the errors and inaccuracies in the Police Pension Fund member data are resolved in advance of the actuarial valuation next year. Failure to do so could result in material misstatements in your accounts and an increased risk of missing the earlier deadlines next year.</p> <p>Management am should perform sufficient reconciliations and checks on membership data and financial information each year to ensure the pension information submitted for the actuarial valuations is accurate.</p>			
2	<p>IT controls</p> <p>A number of IT security weaknesses were identified as part of our audit. These are ongoing issues from previous years, and relate to controls such as user access rights, activity logging and password policies.</p>			
3	<p>PPE estimations</p> <p>Management should review the assets in the balance sheet that have been fully depreciated, and ensure they remain in use or, if they have been disposed of / are no longer in use, ensure they are removed from the fixed asset register.</p> <p>Management should consider the Useful Economic Lives being applied to assets for the purposes of depreciation, and ensure that they are satisfied that the lives remain appropriate.</p>			
4	<p>Seized cash</p> <p>Management should review their treatment of seized cash, and consider whether the treatment accurately reflects the likelihood of these balances being reclaimed.</p>			

Priority

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Appendix B: Audit opinion – Police and Crime Commissioner

We anticipate we will provide the PCC and the group with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE POLICE AND CRIME COMMISSIONER FOR THE WEST MIDLANDS

We have audited the financial statements of the Police and Crime Commissioner for the West Midlands (the "Police and Crime Commissioner") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Group and PCC Comprehensive Income and Expenditure Statements 2016/17, the Group and PCC Movement in Reserves Statements 2016/17, the Group and PCC Balance Sheet 2016/17, the Group and PCC Cash Flow Statement 2016/17, the Statement of Accounting Policies and the related notes and include the Police Pension Fund financial statements of West Midlands Police comprising the Police Pension Fund Account, the Net Assets Statement, the related notes 1 to 6 and the Appendix: Restatement of the Comprehensive Income and Expenditure Statement. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the Police and Crime Commissioner, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Police and Crime Commissioner those matters we are required to state to the Police and Crime Commissioner in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Police and Crime Commissioner as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the

financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Police and Crime Commissioner and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements present a true and fair view of the financial position of the Police and Crime Commissioner and Group as at 31 March 2017 and of the Police and Crime Commissioner's and Group's expenditure and income for the year then ended; and

- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Police and Crime Commissioner under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

Conclusion on the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources

Respective responsibilities of the Police and Crime Commissioner and auditor

The Police and Crime Commissioner is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Police and Crime Commissioner has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we

considered, whether all aspects of the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Police and Crime Commissioner had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Police and Crime Commissioner put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Police and Crime Commissioner has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects *the Police and Crime Commissioner* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the financial statements of the Police and Crime Commissioner in accordance with the requirements of the Act and the Code of Audit Practice.

Appendix C: Audit opinion – Chief Constable

We anticipate we will provide the Chief Constable with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE CHIEF CONSTABLE OF WEST MIDLANDS POLICE

We have audited the financial statements of the Chief Constable of West Midlands Police (the "Chief Constable") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Chief Constable's Comprehensive Income and Expenditure Statement 2016/17, the Chief Constable's Movement in Reserves Statement 2016/17, the Chief Constable's Balance Sheet 2016/17, the Chief Constable's Cash Flow Statement 2016/17, the Statement of Accounting Policies and the related notes and include the Police Pension Fund financial statements of West Midlands Police comprising the Police Pension Fund Account, the Net Assets Statement, the related notes 1 to 6 and the Appendix: Restatement of the Comprehensive Income and Expenditure Statement. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the Chief Constable, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Chief Constable those matters we are required to state to the Chief Constable in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Chief Constable as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United

Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice" and International Standards on Auditing (UK and Ireland)). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Chief Constable's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements present a true and fair view of the financial position of the Chief Constable as at 31 March 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Chief Constable under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

Conclusion on the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources**Respective responsibilities of the Chief Constable and auditor**

The Chief Constable is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Chief Constable has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Chief Constable had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Chief Constable put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Chief Constable has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects *the Chief Constable* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the financial statements of the Chief Constable in accordance with the requirements of the Act and the Code of Audit Practice.



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