

Audit Panel Progress Report and Sector Update

West Midlands Police and Crime Commissioner and West Midlands Chief Constable
Year ending 31 March 2018

March 2018



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Introduction



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This paper provides the Audit Panel with a report on progress in delivering our responsibilities as your external auditor.

The paper also includes a summary of emerging national issues and developments that may be relevant to you.

Members of the Audit Panel can find further useful material on our website where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the Grant Thornton logo to be directed to the website.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or one of the Managers.



Progress to date

Financial Statements Audit

We have completed planning for the 2017/18 financial statements audit, covering both the Chief Constable's and the PCC's arrangements, including:

- updating the review of the control environment,
- updating our understanding of financial systems,
- reviewing Internal Audit reports on core financial systems (where complete and finalised).

Our interim visit is underway at the time of writing this report, but will include:

- ongoing work on historic member data issues,
- review and testing of the data migration from the change in financial system,
- Consideration of large estimates in the financial statements including asset valuation,
- early substantive testing.

The findings from our work to date are summarised on the following slides.

The final accounts audit, covering the PCC's group financial statements including the financial statements of the Chief Constable, is due to commence early June 2018.

The Joint Audit Findings Report will be agreed with management and Those Charged with Governance in July 2018. We plan to issue opinions on the 2017/18 financial statements in July 2018.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires us to consider whether the PCC and the Chief Constable have each put in place proper arrangements for securing economy, efficiency and effectiveness in their use of resources. These are known as the Value for Money (VfM) conclusions. We issue separate conclusions for the PCC and the Chief Constable.

The guidance confirmed the overall criterion as: "in all significant respects, the audited body 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 three sub-criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

We undertook our initial risk assessment to determine our approach in January and report this to you in our Joint Audit Plan.

We will report our work in the Joint Audit Findings Report and give our Value For Money Conclusions by the deadline in July 2018.

Other areas

Meetings

We hold regular meetings with Officers, the Chief Constable, the PCC and the Chair of the Joint Audit Committee as part of our programme of liaison meetings. We continue to be in discussions with key finance staff regarding ongoing and emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Chief Constable and the PCC. Further details of the publications that may be of interest are set out in our Sector Update section of this report.

Ongoing issues

We have continued to meet with key members of staff to discuss progress made against previous audit issues and recommendations in order to ensure that the work that we perform is targeted and efficient.

We discuss this in more detail within the table on page 6 of this report.

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusions and recommendations
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed reports issued to date on internal audit's work on the Chief Constable's and the PCC's control environments. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p> <p>At the time of writing this report we have not been able to review reports on the Chief Constable's and the PCC's key financial systems, as these have yet to be issued.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	<p>Our work has not identified any material weaknesses which are likely to adversely impact on the Chief Constable's or the PCC's financial statements.</p>
Walkthrough testing	<p>We are in the process of completing walkthrough tests of the Chief Constable's and PCC's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Due to the added complexities of two ledger systems in the financial year, this work is ongoing at the time of writing this report. Our work to date has not identified any issues which we wish to bring to your attention.</p>	<p>Our walkthrough testing to date has not identified any weaknesses which impact on our audit approach.</p> <p>We will provide the committee with a verbal update on our work in this area. If, following the Joint Audit Committee meeting we identify any issues which have a significant impact on our proposed testing strategy, we will, following agreement with management and Those Charged with Governance, inform the Chair of the Joint Audit Committee at the earliest opportunity.</p>
Journal entry controls	<p>We have reviewed the Chief Constable's and the PCC's journal entry policies and procedures in order to inform our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on their control environment or financial statements.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>

Results of interim audit work (continued)

	Work performed	Conclusions and recommendations
Historic issue relating to Pensions Member Data	<p>We have held discussions throughout the year with key members of staff on the progress being made in relation to the membership data cleansing exercise.</p> <p>Due to the issues noted during our audit in 2016/17, we will not be placing any reliance on the membership data for the purposes of our testing of the income and expenditure of the pension fund in 2017/18. Alternative assurance will be sought.</p>	<p>The pensions team have provided us with a detailed reconciliation of the membership numbers given to us during the 2016/17 audit to those at 31 December 2017. They will look to complete this reconciliation on a quarterly basis going forward.</p> <p>We have agreed an approach to test the data at 31 March 2018. This is of particular importance due to that information being submitted to the Government Actuarial Department (GAD) to inform the triennial valuation of the pension liability. Failure to provide accurate data to the actuary at 31 March 2018 will have a significant impact on the testing strategy for gaining assurance over pension estimates in the financial statements for the next three financial years.</p>
Transfer of data to the new general ledger	<p>We have reviewed the work performed by internal audit in preparation for the transfer to the new ledger system. We have also held discussions with internal audit staff and key members of the finance team in order to understand the processes put in place.</p> <p>At the time of writing this report, our detailed work on the data transferred to the new ledger is not complete.</p>	<p>Through discussions with internal audit and key finance staff, we have gained an understanding of the processes followed to transfer the ledger, and the issues experienced.</p> <p>We are satisfied that the finance team are aware of these issues, and have taken steps to address them. We have yet to complete our detailed testing on the transfer. We will also take the work from Internal Audit on the main financial systems into our overall assessment of the control environment which directs the level of testing required.</p> <p>We will provide the committee with a verbal update on our work in this area.</p>
Early substantive testing	<p>At the time of writing this report, our interim procedures are still in progress. By the end of March we are looking to complete testing to cover the first 11 months of the financial year in the following areas:</p> <ul style="list-style-type: none"> • Operating expenditure • Employee remuneration • Grant and precept revenues • Other revenues 	<p>We will provide the committee with a verbal update on our work in this area.</p>

Audit deliverables

2017/18 Deliverables	Planned date	Status
Fee Letters Confirming audit fees for 2017/18 audits.	April 2017	Complete
Accounts Joint Audit Plan We are required to issue a detailed accounts joint audit plan to Those Charged with Governance setting out our proposed approach in order to give an opinion on the MOPAC and MPS 2017/18 financial statements.	February 2018	Complete
Interim Audit Findings Issues arising from our interim work will be set out in a progress report and presented to management and Those Charged with Governance.	March 2018	Contained within this report
Joint Audit Findings Report The Audit Findings Report will be agreed with management and Those Charged with Governance in July 2018.	July 2018	Not yet due
Auditors Reports These are the opinions on the financial statements, annual governance statements and value for money conclusions.	July 2018	Not yet due
Joint Annual Audit Letter This letter communicates the key issues arising from our audit work.	August 2018	Not yet due

Sector Update

Policing services are rapidly changing. Increased demand from the public and more complex crimes require a continuing drive to achieve greater efficiency in the delivery of police services. Public expectations of the service continue to rise in the wake of recent high-profile incidents, and there is an increased drive for greater collaboration between Forces and wider blue-light services.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider Police service and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from sector specialists](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and police sections on the Grant Thornton website by clicking on the logos below:

A dark purple rectangular button with the word "Police" in white text.

Police

A teal rectangular button with the words "Public Sector" in white text.

Public Sector

PEEL – Police leadership 2017



Skills gap threatens to leave tomorrow's police forces short

Police forces lack sufficiently deep understanding of the skills and capabilities of their workforce, risking their ability to meet future demands, according to the latest police leadership report published by Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services.

The Police Leadership 2017 report shows that few police forces have adequate succession plans in place. Faced with increasingly complex crime and fast-changing demands, too many forces are taking a short-term and reactive approach to address future needs.

However, the report notes numerous positive examples of police leaders showing commitment to improvement. Senior teams consistently demonstrated an understanding of the need for fair and ethical treatment of their workforces and to the public. Inspectors also found that there has been an increasing prioritisation of wellbeing within the workforce.

The report notes that the processes and systems that underpin ethical decision-making have strengthened and matured since last year's report. When ethical problems do arise, higher-performing forces show that they communicate the lessons learned throughout their team.

The report concludes that police forces need to:

- improve their use of performance management;
- build on their understanding of leadership skills and capabilities within their workforces; and
- continue to look for new skills externally.

Such measures could help forces meet the difficulties of modern policing more efficiently and effectively.

HMICFRS will return to forces to examine police leadership next year. Areas that have been identified as requiring improvement will be revisited in order to assess progress.

HMICFRS also produce Force specific reports, as at February 2018, the MPS:

- has been assessed as requiring improvement in the efficiency with which it keeps people safe and reduces crime; and
- Is judged to be good in how legitimately it keeps people safe and reduces crime.

Effectiveness is yet to be graded.

Click on the report cover to read the national report.



Overview of the General Data Protection Regulation (GDPR)

What is it?

The GDPR is the most significant development in data protection for 20 years. It introduces new rights for individuals and new obligations for public and private sector organisations.

What's next?

Many public sector organisations have already developed strategic plans to implement the GDPR, which require policy, operational, governance and technology changes to ensure compliance by 25th May 2018.

How will this affect you?

- ✓ All organisations that process personal data will be affected by the GDPR.
- ✓ The definition of 'personal data' has been clarified to include any data that can identify a living individual, either directly or indirectly. Various unique personal identifiers (including online cookies and IP addresses) will fall within the scope of personal data

What organisations need to do by May 2018

- ✓ Local government organisations need to be able to provide evidence of completion of their GDPR work to internal and external stakeholders, to internal audit and to regulators.
- ✓ New policies and procedures need to be fully signed off and operational.

Organisation Accountability

- Organisations must document their assurance procedures, and make them available to regulators
- Some organisations need to designate a Data Protection Officer, who has expert knowledge of data protection law

Notifications and Rights

- Organisations must notify significant data breaches to regulators within 72 hours
- Organisations must explain to individuals what their rights over their personal information are and how it is being processed and protected

Claims and Fines

- For the most serious data breaches, privacy regulators can impose penalties of up to €20 million on public sector organisations,
- Individuals and representative organisations can claim compensation for infringements of data protection law

Questions for your organisation:

- Can your organisation erase personal data effectively?
- Have you appointed a Data Protection Officer if required to have one?
- How will your organisation ensure citizens know how their data is being used and whether it's being shared with other organisations?

Supply Chain Insights tool helps support supply chain assurance in public services

Grant Thornton UK LLP has launched a new insights and benchmarking platform to support supply chain assurance and competitor intelligence in public services.

The Supply Chain Insights service is designed for use by financial directors and procurement professionals in the public sector, and market leaders in private sector suppliers to the public sector. It provides users with a detailed picture of contract value and spend with their supply chain members across the public sector. The analysis also provides a robust and granular view on the viability, sustainability, market position and coverage of their key suppliers and competitors.

The platform is built on aggregated data from 96 million invoices and covers £0.5 trillion of spending. The data is supplemented with financial standing data and indicators to give a fully rounded view. The service is supported by a dedicated team of analysts and is available to access directly as an on-line platform.

Phillip Woolley, Partner, Grant Thornton UK LLP, said:

"The fall-out from the recent failure of Carillion has highlighted the urgent need for robust and ongoing supply chain monitoring and assurance. Supply Chain Insights provides a clear picture of your suppliers' activities across the sector, allowing you to understand risks, capacity and track-record. We think it's an indispensable resource in today's supplier market."



The tool enables you to immediately:

- access over 96 million transactions that are continually added to
- segment invoices by:
 - organisation and category
 - service provider
 - date at a monthly level
- benchmark your spend against your peers
- identify:
 - organisations buying similar services
 - differences in pricing
 - the leading supplier
- see how important each buyer is to a supplier
- benchmark public sector organisations' spend on a consistent basis
- see how much public sector organisations spend with different suppliers

Supply Chain Insights forms part of the Grant Thornton Public Sector Insight Studio portfolio of analytics platforms.

Click on Supply Chain Insights for more information.

Supply Chain Insights

Grant Thornton

Challenge question:

Has your organisation considered how our Supply Chain Insight tool can help support your supply chain assurance?



Public Sector Audit Appointments: Report on the results of auditors' work 2016/17

This is the third report on the results of auditors' work at local government bodies published by PSAA. It summarises the results of auditors' work at 497 principal bodies and 9,752 small bodies for 2016/17. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors used their statutory reporting powers.

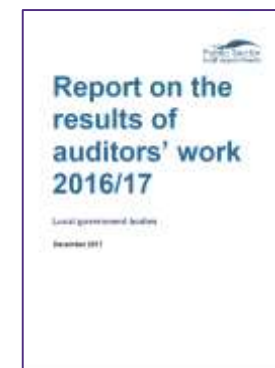
The timeliness and quality of financial reporting for 2016/17, as reported by auditors, remained broadly consistent with the previous year for both principal and small bodies. Compared with 2015/16, the number of principal bodies that received an unqualified audit opinion by 31 July showed an encouraging increase. 83 principal bodies (17 per cent) received an unqualified opinion on their accounts by the end of July compared with 49 (10 per cent) for 2015/16. These bodies appear to be well positioned to meet the earlier statutory accounts publication timetable that will apply for 2017/18 accounts.

Less positively, the proportion of principal bodies where the auditor was unable to issue the opinion by 30 September increased compared to 2015/16. Auditors at 92 per cent of councils (331 out of 357) were able to issue the opinion on the accounts by 30 September 2017, compared to 96 per cent for the previous year. This is a disappointing development in the context of the challenging new reporting timetable from 2017/18. All police bodies, 29 out of 30 fire and rescue authorities and all other local government bodies received their audit opinions by 30 September 2017.

The number of qualified conclusions on value for money arrangements has remained relatively constant at 7 per cent (30 councils, 2 fire and rescue authorities and 1 other local government body) compared to 8 per cent for 2015/16. The most common reasons for auditors issuing non-standard conclusions on the 2016/17 accounts were:

- the impact of issues identified in the reports of statutory inspectorates;
- corporate governance issues; and
- financial sustainability.

The latest results of auditors' work on the financial year to 31 March 2017 show a solid position for the majority of principal local government bodies. Generally, high standards of financial reporting are being maintained despite the financial and service delivery challenges currently facing local government.



CIPFA publications - The Prudential Code and Treasury Management Code

CIPFA have published an updated 'Prudential Code for Capital Finance in Local Authorities'. Key developments include the introduction of more contextual reporting through the requirement to produce a capital strategy along with streamlined indicators.

The framework established by the Prudential Code should support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within this clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable.

Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003, in Scotland under Part 7 of the Local Government in Scotland Act 2003, and in Northern Ireland under Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

Since the Prudential Code was last updated in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda. It reflects the increasing diversity in the sector and new structures, whilst providing for streamlined reporting and indicators to encourage better understanding of local circumstances and improve decision making.

The introduction of a capital strategy allows individual local authorities to give greater weight to local circumstances and explain their approach to borrowing and investment. The Code is available in hard copy and online.



CIPFA have also published an updated Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The Code provides a framework for effective treasury management in public sector organisations.

The Code defines treasury management as follows:

The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

It is primarily designed for the use of local authorities (including police and crime commissioners and fire authorities), providers of social housing, higher and further education institutions, and the NHS. Local authorities in England, Scotland and Wales are required to 'have regard' to the Code.

Since the last edition of the TM Code was published in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda.

There are significant treasury management portfolios within the public services, for example, as at 31 March 2016, UK local authorities had outstanding borrowing of £88bn and investments of £32bn

The Code is available in hard copy and online.

CIPFA Publication

Challenge question:

Has your finance team briefed members on the impact of the changes to the prudential code?



Changes to the prudential framework of capital finance

The Ministry of Housing Communities and Local Government has updated the Local Authority Investments Guidance and the Minimum Revenue following its publication of consultation responses on 2 February 2018.

A total of 213 consultation responses were received by the MHCLG by the 22 December 2017 deadline from across local government. Following consideration of the responses the Government has:

- made some technical changes to the Investments Guidance and MRP Guidance
- amended proposals relating to useful economic lives of assets
- implemented the Investments Guidance for 2018-19, but allowed flexibility on when the additional disclosure first need to be presented to full Council
- deferred implementation of MRP Guidance to 2019-20 apart from the guidance “Changing methods for calculating MRP”, which applies from 1 April 2018.

Key changes are noted below.

Statutory Guidance on Local Authority Investments

Transparency and democratic accountability – the revised guidance retains the requirement for an Investment Strategy to be prepared at least annually and introduces some additional disclosures to improve transparency. However, as the changes to the CIPFA Prudential Code include a new requirement for local authorities to prepare a Capital Strategy, the revised guidance allows the matters required to be disclosed in the Investment Strategy to be disclosed in the Capital Strategy.

Principle of contribution – the consultation sought views on the introduction of a new principle requiring local authorities to disclose the contribution that non-core investments make towards core functions. Authorities’ core objectives include ‘service delivery objectives and/or placemaking role.’ This clarification has been made to recognise the fact that local authorities have a key role in facilitating the long term regeneration and economic growth of their local areas and that they may want to hold long term investments to facilitate this.

Introduction of a concept of proportionality – the Government is concerned that some local authorities may become overly dependent on commercial income as a source of revenue for delivering statutory services. The consultation sought views on requiring local authorities to disclose their dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income. A majority of respondents supported the introduction of a concept of proportionality, recognising the importance that local authorities make decisions based on an understanding of the overall risk that they face.

Borrowing in advance of need – by bringing non-financial investments (held primarily or partially to generate a profit) within the scope of the Investments Guidance, the consultation proposals made it clear that borrowing to fund acquisition of non-financial assets solely to generate a profit is not prudential. The Investment Guidance requires local authorities who have borrowed in advance of need solely to generate a profit to explain why they have chosen to disregard statutory guidance. It is also important to note that nothing in the Investment Guidance or the Prudential Code overrides statute, and local authorities will still need to consider whether any novel transaction is lawful by reference to legislation.

Minimum Revenue Provision Guidance

The consultation sought views on proposals to update the guidance relating to MRP to ensure local authorities are making prudent provision for the repayment of debt.

Meaning of a charge to the revenue account – the Government does not believe that crediting the revenue account is either prudent or within the spirit of the approach set out in the relevant Regulations. For this reason a charge to the account should not be a negative charge.

Impact of changing methods of calculating MRP – the Government does not expect any local authority to recalculate MRP charged in prior years due to the proposed changes in methodology.

Introduction of a maximum economic life of assets – the consultation sought views on setting a maximum useful economic life of 50 years for freehold land and 40 years for other assets. The MRP Guidance will set a maximum life of 50 years, but allow local authorities to exceed this where the related debt is PFI debt with a longer term than 50 years, or where a local authority has an opinion from an appropriately qualified person that an operational asset will deliver benefits for more than 50 years.



Changes to capital finance framework

Challenge question:

Has your finance team briefed members on the impact of the changes to the prudential framework of capital finance?

Links

Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

<http://supplychaininsights.grantthornton.co.uk/>

PSAA website links

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

MHCLG website links

<https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance>

<https://www.gov.uk/government/publications/capital-finance-guidance-on-local-government-investments-second-edition>

<https://www.gov.uk/government/publications/capital-finance-guidance-on-minimum-revenue-provision-third-edition>

CIPFA website link

<http://www.cipfa.org/policy-and-guidance/publications/t/the-prudential-code-for-capital-finance-in-local-authorities-2017-edition-book>

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.



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