

Audit Progress Report

Police and Crime Commissioner for the West Midlands
and Chief Constable for the West Midlands

Year ending 31 March 2020

December 2019



Introduction



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This paper provides the Joint Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- A summary of the emerging national issues and developments that may be relevant to you
- Includes a number of challenging questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes).

Members of the Joint Audit Committee 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.

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 Engagement Manager.

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Progress report (to date)

Financial Statements Audit

We have started planning for the 2019/20 financial statements audit and are due to commence our planning work this month with our first interim audit in January 2020.

Our interim fieldwork visit will include:

- Updated review of the control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

We will report any significant findings from the interim audit to you in our Progress Report at the March Audit committee.

The final accounts audit is due to begin late May 2020 with findings reported to you in the Joint Audit Findings Report.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the “few improvements needed” (2A) rating means that additional audit work is required.

We are currently reviewing the impact of these changes on both the cost and timing of audits. We will discuss this with your CFO including any proposed variations to the Scale Fee set by PSAA Limited, before communicating fully with the Joint Audit Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government and police sector financial reporting.

We have now had confirmation from PSAA that the additional fees identified from our 2018/19 audit have been approved and we are able to invoice you.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; “the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources”.

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 will undertake our risk assessment to identify key risks to you delivering value for money and report these within our Audit Plan to the March Joint Audit Committee. We anticipate that financial resilience will remain a significant risk due to the overall pressure on the public sector and in particular the Policing Sector.

Other areas

Meetings

We continue to meet with Finance Officers throughout the financial year and supplement this with e-mails where information crops up which we share.

We continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

We have provided our views as part of your external CIPFA assessment and look forward to seeing the outcome from that review.

We also support the Members of the Joint Audit Committee and facilitated a discussion with Members in March to identify areas where support or on-going training and development was required.

Events

Our free to attend accounts workshop is planned for the new year and your finance staff have secured their place at this event which is a useful and informative forum to discuss year end issues early.

We also held a session for Joint Audit Committee Chairs in the Autumn where West Midlands was represented. We will keep you informed of future dates as they arise. We are currently planning our annual audit committee member event for February 2020 and will send invitations to audit committee members shortly.

Audit Deliverables

2019/20 Deliverables	Planned Date	Status
Fee Letters Confirming audit scale fees for 2019/20	April 2019	Complete
Joint Audit Plan We are required to issue a detailed accounts joint audit plan to the Joint Independent Audit Committee setting out our proposed approach in order to give an opinion on the Police and Crime Commissioner and group and Chief Constable's 2019/20 financial statements	March 2020	Not yet due
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report	March 2020	Not yet due
Joint Audit Findings Report The Joint Audit Findings Report will be reported to the July Joint Independent Audit Committee	July 2020	Not yet due
Auditor's Reports This is the opinions on your financial statements, annual governance statement and value for money conclusions	July 2020	Not yet due
Joint Annual Audit Letter This letter communicates the key issues arising from our work	August 2020	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:

[Public Sector](#)

[Police](#)

MHCLG – Independent probe into local government audit

In July, the then Communities secretary, James Brokenshire, announced the government is to examine local authority financial reporting and auditing.

At the CIPFA conference he told delegates the independent review will be headed up by Sir Tony Redmond, a former CIPFA president.

The government was “working towards improving its approach to local government oversight and support”, Brokenshire promised.

“A robust local audit system is absolutely pivotal to work on oversight, not just because it reinforces confidence in financial reporting but because it reinforces service delivery and, ultimately, our faith in local democracy,” he said.

“There are potentially far-reaching consequences when audits aren’t carried out properly and fail to detect significant problems.”

The review will look at the quality of local authority audits and whether they are highlighting when an organisation is in financial trouble early enough.

It will also look at whether the public has lost faith in auditors and whether the current audit arrangements for councils are still “fit for purpose”.

On the appointment of Redmond, CIPFA chief executive Rob Whiteman said: “Tony Redmond is uniquely placed to lead this vital review, which will be critical for determining future regulatory requirements.

“Local audit is crucial in providing assurance and accountability to the public, while helping to prevent financial and governance failure.”

He added: “This work will allow us to identify what is needed to make local audit as robust as possible, and how the audit function can meet the assurance needs, both now and in the future, of the sector as a whole.”

In the question and answer session following his speech, Brokenshire said he was not looking to bring back the Audit Commission, which appointed auditors to local bodies and was abolished in 2015. MHCLG note that auditing of local authorities was then taken over by the private, voluntary and not-for-profit sectors.

He explained he was “open minded”, but believed the Audit Commission was “of its time”.

Local authorities in England are responsible for 22% of total UK public sector expenditure so their accounts “must be of the highest level of transparency and quality”, the Ministry of Housing, Local Government and Communities said. The review will also look at how local authorities publish their annual accounts and if the financial reporting system is robust enough.

Redmond, who has also been a local authority treasurer and chief executive, is expected to report to the communities secretary with his initial recommendations in December 2019, with a final report published in March 2020. Redmond has also worked as a local government boundary commissioner and held the post of local government ombudsman.



National Audit Office – Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. 'Relevant authorities' are set out in Schedule 2 of the Act and include local councils, fire authorities, police and NHS bodies.

Local auditors must comply with the Code of Audit Practice.

Consultation – New Code of Audit Practice from 2020

Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

In order to determine what changes might be appropriate, the NAO is consulting on potential changes to the Code in two stages:

Stage 1 involves engagement with key stakeholders and public consultation on the issues that are considered to be relevant to the development of the Code.

This stage of the consultation is now closed. The NAO received a total of 41 responses to the consultation which included positive feedback on the two-stage approach to developing the Code that has been adopted. The NAO state that they have considered carefully the views of respondents in respect of the points drawn out from the [Issues paper](#) and this will inform the development of the draft Code. A summary of the responses received to the questions set out in the [Issues paper](#) can be found below.

[Local audit in England Code of Audit Practice – Consultation Response \(pdf – 256KB\)](#)

Stage 2 of the consultation involves consulting on the draft text of the new Code. To support stage 2, the NAO has published a consultation document, which highlights the key changes to each chapter of the draft Code. The most significant changes are in relation to the Value for Money arrangements. Rather than require auditors to focus on delivering an overall, binary, conclusion about whether or not proper arrangements were in place during the previous financial year, the draft Code requires auditors to issue a commentary on each of the criteria. This will allow auditors to tailor their commentaries to local circumstances. The Code proposes three specific criteria:

- a) Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- b) Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- c) Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

The consultation document and a copy of the draft Code can be found on the NAO website. The consultation is open until 22 November 2019. The new Code will apply from audits of local bodies' 2020-21 financial statements onwards.

Link to NAO webpage for the Code consultation:

<https://www.nao.org.uk/code-audit-practice/code-of-audit-practice-consultation/>

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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