

Audit Progress Report

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

Year ending 31 March 2020

July 2020



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 issued a detailed Joint Audit Plan within the March Joint Audit Committee papers, setting out our proposed approach to the audit of the Group, PCC and Chief Constable 2019/20 financial statements.

Subsequent to the issue of our Joint Audit Plan, global events have moved in an unexpected and tragic direction. None of us could have foreseen the impact that the Covid-19 crisis has had on the world. As a police body, you are at the forefront of efforts to support local people, and clearly your focus will be directed to supporting local communities as best you can in these exceptionally difficult circumstances.

As your auditors, we absolutely understand the challenges that you and your teams are facing and we have already been discussing with you and your team how we can work with you as effectively as we can. It is particularly important to ensure that we can deliver a high quality audit, focused on good governance and the application of relevant accounting and auditing standards, whilst recognising the day to day pressures you face. With this in mind we prepared an updated addendum to our Joint Audit Plan for 2019/20 outlining our response to the Covid-19 which we present to this Joint Audit Committee.

We are pleased to report that we have completed testing on 9 months of your I&E transactions. We have also tested fixed asset additions as at month 9. We have started our payroll substantive analytical procedures and await responses from your Shared Services team to our queries. All other requests for information at our interim visit have been responded to.

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.

Our risk assessment has identified one key risk which relates to financial sustainability. More detail is provided within the Joint Audit Plan. This risk remains a key risk for the sector as a whole due to the level of uncertainty around future funding in particular.

As part of our VfM work we will ensure we understand the arrangements you are putting in place to manage risks around business continuity in the current crisis. We do not envisage this will be a significant audit risk for 2019/20.

We will report the conclusions from our work in the Joint Audit Findings Report.

Other areas

Meetings

We last met (virtually) with Finance Officers in May as part of our ongoing audit liaisons. We continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective, especially given the need to work remotely. This is supplemented by e-mails where information crops up which we share.

We will update the Joint Audit Committee as part of our year end reporting on the resolution of each of these points.

Events

We will keep you informed of upcoming events and ensure that invitations are circulated to both management and the committee. Plans are currently on hold as we continue to work remotely.

COVID-19 Update

Impact on working arrangements:

- Following the government's announcement on Monday 16th March, we closed our offices for the foreseeable future and your audit team are now working from home
- We will therefore be working remotely during the accounts audit and have discussed the logistics of these arrangements with the finance team.
- Although there are some audit tasks which are best undertaken in person, the majority of the audit will be able to be completed remotely. This is however likely to make the audit process longer. We will work closely with the finance team to make this different way of working as efficient as possible.
- We acknowledge there may need to be further changes to planned audit timings due to potential illness within the audit team or the finance team and due to the further developments of COVID-19. We will keep management informed of any changes to our proposed delivery plan.

Impact on accounts and audit opinions

The following sets out a number of the key issues which finance teams will need to consider as part of the year end closedown.

- Impact on reserves and financial health and whether the audited body needs to provide additional disclosures that draw attention to a Material Uncertainty around Going Concern.
- Impact on collectability of debt and assumptions made in bad debt provisions.
- Impact on post-balance sheet events (the consequences of the virus post 31 March 2020 will generally be a non-adjusting post balance sheet events but some form of disclosure may be needed).
- Disclosure of impact in annual report.
- Disclosure of critical judgements.
- Disclosure of material estimation uncertainties.
- Impact on the content of the Annual Governance Statement, particularly with regards to risks, controls and mitigation.
- Considerations in respect of service continuity and disaster planning arrangements (this could impact on the VfM conclusion).
- Impact on reporting to those charged with governance and signing arrangements.

Regulatory changes

CIPFA adopted a small number of presentational changes to its Accounting Code of Practice for 2019/20. The changes which are now proposed to the Code, for example around disclosure, will have only a marginal impact on the audit.

The Government accounting Financial Reporting Advisory Board (FRAB) has deferred the implementation of IFRS 16 by a year. Whilst IAS 8 disclosures will be required, this change will lead to some reduction in preparatory work required.

Finally, the publication date for the draft accounts has been revised to 31 August and a target date for publication of audited accounts to 30 November. Whilst flexibility in moving away from July is welcome, a number of bodies have highlighted the risk that a delayed closedown process could impact on their budget programme for 2021/22. We have agreed to start our audit work at the end of June and continue through July and into August. Our approach will be to undertake work on the audit in two week blocks, with periods between where finance staff can address queries and continue their day to day responsibilities.

Audit Deliverables

2019/20 Deliverables	Planned Date	Status
Fee Letters / Scoping Letters Confirming audit scale fees for 2019/20. We have issued detailed audit scope letters to both the Police and Crime Commissioner and the Chief Constable providing an indication of our proposed work and the additional fees which will be incurred along with reasons for this. All fees remain subject to approval from PSAA.	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	Complete
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	Complete
Joint Audit Findings Report The Joint Audit Findings Report will be reported to the July Joint Independent Audit Committee	July 2020 Revised to September 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 Revised to September 2020	Not yet due
Joint Annual Audit Letter This letter communicates the key issues arising from our work	August 2020 Revised to October 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:

A teal rectangular button with the text "Public Sector" in white, sans-serif font.

Public Sector

A dark purple rectangular button with the text "Police" in white, sans-serif font.

Police

PEEL: Police effectiveness, efficiency and legitimacy 2018/19 – group 3

HMICFRS has published their findings for the third, and final, group of forces inspected in the PEEL 2018/19 assessment. This group of 14 reports completes a full annual cycle of inspections of the 43 forces in England and Wales, following previous publications in May and September 2019.

The summary press releases can be accessed by [clicking here](#)

PEEL spotlight report: Diverging under pressure – Overview of themes from PEEL inspections 2018/19

This report gives an overview of the themes from the 2018/19 PEEL (police effectiveness, efficiency and legitimacy) inspections. With the publication of the final 14 force reports from the third tranche of inspections, this report reflects on findings from all 43 force inspections to draw together national themes in policing.

PEEL is the annual assessment of police forces in England and Wales. HMICFRS assess forces in three ways to find out:

- how effective they are at preventing and investigating crime, protecting vulnerable people and tackling serious organised crime;
- how efficiently they manage demand and plan for the future; and
- how legitimately they treat the public, how ethically they behave, and how they treat their workforce.

Following the completion of HMICFRS's Integrated PEEL Assessments (IPA) for 2018/19, the inspectorate has found that although many forces are performing well under pressure, the consistency of service across England and Wales needs to be addressed.

In the report Divergence Under Pressure HMICFRS found that forces are still struggling to understand demand in their areas. This is preventing them from being able to use their resources well and plan for the future. Forces also need to ensure they are determined to maintain and improve how they treat the public, in particular using stop and search fairly and properly.

HMICFRS report that:

- forces have greatly improved their ability to protect vulnerable people and support victims;
- there is still a lack of capacity in neighbourhood policing to analyse and use intelligence;
- the likelihood of the police bringing someone to justice following a criminal investigation is decreasing; and
- there are stark differences in the way forces investigate crimes across the country.

The full report is available by clicking [here](#)

COVID-19 Update

Consultation on the proposed police inspection programme and framework for 2020-21: Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) had launched a consultation on its proposed police inspection programme and framework for 2020-21 which was scheduled to run until April 2020. The consultation deadline has been extended indefinitely due to the Coronavirus pandemic. HMICFRS also suspended all inspection work requiring contributions from police forces and fire and rescue services until further notice.

Home Office

Policing gets biggest funding boost in decade

The government has announced the biggest increase in funding for the police system in a decade.

The amount of funding available to the policing system for 2020 to 2021 will increase by more than £1.1 billion, totalling £15.2 billion, if Police and Crime Commissioners (PCCs) take full advantage of flexibility to set the police precept.

This represents an almost 10% increase on the core (resource) grant provided to forces last year, enabling the police to cut crime and deliver on the people's priorities.

It builds on a number of existing government commitments to bear down on the criminals who seek to do our communities and our country harm. It will enable forces to recruit 6,000 of the 20,000 additional police officers by the end of March 2021.

The settlement includes the £750 million announced by the Chancellor last year to enable forces to meet their officer recruitment targets.

The bulk will go directly to PCCs (£700 million). The remainder will be spent nationally on capabilities and infrastructure to support the recruitment drive.

As announced by the Home Secretary on Tuesday 21 January, funding for counter-terrorism policing will total £906 million in 2020 to 2021, a year-on-year increase of £90 million.

The full article is available by clicking [here](#).

Home Office announces first wave of 20,000 police officer uplift

The Home Office has confirmed the officer recruitment targets for every police force in England and Wales for the first year of the unprecedented drive to increase their ranks by 20,000 over the next 3 years.

Strengthening police numbers is a priority for the government, which is providing £750 million to support forces to recruit up to 6,000 additional officers onto our streets by the end of 2020 to 2021, the first stage in this new uplift.

All officers recruited as part of the 20,000 uplift will be additional to those hired to fill existing vacancies. They are also on top of the extra officers already being recruited because of the £1 billion increase in police funding for 2019 to 2020, which includes money from council tax and for serious violence.

The first-year recruitment targets are available [here](#).



Home Office

Other news

The Police Federation and CIPFA call for new funding system

The Police Federation and CIPFA have warned that the current funding formula and yearly settlement it generates is outdated and prevents long-term planning that could deliver greater savings. The calls for reform echo those made by PCCs in response to the announcement of this year's funding allocations.

Analysis by the Police Federation concluded that the settlement in real terms equates to 6.4% increase on last year. It is the responsibility of PCCs to add funding through the increases in the precept element of council tax.

CIPFA said the funding would meet the demands generated by the uplift recruitment programme but not the efficiencies that ministers are also expecting.

Rob Whiteman, CIPFA Chief Executive, said: 'This is yet another example of unsustainable, short-term thinking when it comes to police finance. Forces urgently need financial certainty in order to fulfil their vital role – protecting those in need and delivering a safer society.'

The full article can be accessed [here](#)



World Class Policing Awards 2020

The World Class Policing Awards recognise exceptional performance, effective collaboration, innovative and progressive policing, beneficial outcomes for the public, as well as initiatives that improve the welfare of officers and staff to empower them to greater achievement. The Awards celebrate and share World Class Policing knowledge and practice with the whole policing community.

The Awards will honour the very best in policing at a prestigious awards ceremony in London this November.

Nominations for the awards are now open. Find out more at <https://worldclasspolicing.com/home>



Brydon Review – the quality & effectiveness of audit

The Brydon review is an independent review, led by Sir Donald Brydon, which has looked at the quality and effectiveness of audit, seeking to make proposals that will improve the UK audit ‘product’. The review has examined the nature and scope of audit from a user perspective and seeks to clarify and potentially close the ‘expectation gap’ (ie what stakeholders and society expect from audit compared to what it delivers today).

A full list of Sir Donald’s recommendations can be found online, and a brief summary is provided below:

- Redefinition of audit and its purpose
- Creation of a corporate auditing profession, governed by principles
- Introduction of suspicion into the qualities of auditing
- Extension of the concept of auditing to areas beyond financial statements
- Mechanisms to encourage greater engagement of shareholders with audit and auditors
- Change in language of the opinion given by auditors
- Introduction of a corporate Audit and Assurance Policy, a Resilience Statement and a Public Interest Statement
- Suggestions to inform the work of BEIS on internal controls and improve clarity on capital maintenance
- Greater clarity around the roles of the audit committee
- A package of measures around fraud detection and prevention
- Improved auditor communication and transparency
- Obligations to acknowledge external signals of concern
- Extension of audit to new areas including Alternative Performance Measures
- Increased use of technology

On the auditor’s responsibility to detect fraud, Jonathan Riley, Grant Thornton Head of Quality and Reputation, said: “We are pleased to note that Sir Donald Brydon makes it clear that not only is there an expectation gap in relation to the purpose of audit and the detection of fraud but that the current ISAs need revision, and training of corporate auditors need to be enhanced, in order to allow auditors to better detect fraud. This is further reinforced by the new ability to make it easier for users of accounts, not just management, to inform the auditor of concerns relating to financial statements.”

“Notwithstanding these proposals, it is neither possible or desirable for an auditor to test in detail every transaction of the company and so materiality will still exist. In addition, a fraud involving collusion and sophistication may still prove extremely hard to detect.”

Grant Thornton welcomes the consideration given by Sir Donald on the quality and effectiveness of audit. These recommendations should bring far greater clarity and transparency to the profession and ultimately result in an audit regime that allows auditors to better assess, assure and inform all users of financial accounts.

Crucially, the Government must now consider these recommendations not just in context of earlier inquiries into the profession, but also against the backdrop of global trade and Britain’s future role as a pillar of global commerce. The report places new obligations not only on auditors, but also on company directors. Together with other regulations such as the revised Ethical Standard and wider corporate governance requirements, the proposed changes need to strike the right balance and not dent our place on the world’s financial stage. Careful explanation particularly of what this means to those fast growing mid-sized public entities seeking capital will be necessary.

The public perception of audit remains weak and failures continue to happen, so we agree that now is the right time to explore what needs to change to ensure that audit is fit for modern day business and meets the public interest. The report should contribute heavily towards this outcome.

Link to the full report and full list of recommendations:

<https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review>

Redmond Review – Review of local authority financial reporting and external audit

The independent review led by Sir Tony Redmond sought views on the quality of local authority financial reporting and external audit. The consultation ran from 17 September 2019 to 20 December 2019.

Grant Thornton provided a comprehensive submission, We believe that local authority financial reporting and audit is at a crossroads. Recent years have seen major changes. More complex accounting, earlier financial close and lower fees have placed pressure on authorities and auditors alike. The target sign-off date for audited financial statements of 31 July has created a significant peak of workload for auditors. It has made it impossible to retain specialist teams throughout the year. It has also impacted on individual auditors' well-being, making certain roles difficult to recruit to, especially in remote parts of the country.

Meanwhile, the focus on Value for Money, in its true sense, and on protecting the interests of citizens as taxpayers and users of services are in danger of falling by the wayside. The use of a black and white 'conclusion' has encouraged a mechanistic and tick box approach, with auditors more focused on avoiding criticism from the regulator than on producing Value for Money reports that are of value to local people.

In this environment, persuading talented people to remain in the local audit market is difficult. Many of our promising newly qualified staff and Audit Managers have left the firm to pursue careers elsewhere, often outside the public sector, and almost never to pursue public audit at other firms. Grant Thornton is now the only firm which supports qualification through CIPFA. It is no longer clear where the next generation of local auditors will come from.

We believe that now is the time to reframe both local authority financial reporting and local audit. Specifically, we believe that there is a need for:

- More clearly established system leadership for local audit;
- Simplified local authority financial reporting, particularly in the areas of capital accounting and pensions;

- Investing in improving the quality of financial reporting by local bodies;
- A realistic timescale for audit reporting, with opinion sign off by September each year, rather than July;
- An increase in audit fees to appropriate levels that reflect current levels of complexity and regulatory focus;
- A more tailored and proportional approach to local audit regulation, implementing the Kingman recommendations in full;
- Ensuring that Value for Money audit work has a more impactful scope, as part of the current NAO Code of Audit Practice refresh;
- Introducing urgent reforms which help ensure future audit arrangements are sustainable and attractive to future generations of local audit professionals.

We note that Sir Donald Brydon, in his review published this week, has recommended that *“the Audit, Reporting and Governance Authority (ARGA) (the proposed new regulatory body) should facilitate the establishment of a corporate auditing profession based on a core set of principles. (This should include but not be limited to) the statutory audit of financial statements.”* Recognising the unique nature of public audit, and the special importance of stewardship of public money, we also recommend that a similar profession be established for local audit. This should be overseen by a new public sector regulator.

As the reviews by John Kingman, Sir Donald Brydon, and the CMA have made clear, the market, politicians and the media believe that, in the corporate world, both the transparency of financial reporting and audit quality needs to be improved. Audit fees have fallen too low, and auditors are not perceived to be addressing the key things which matter to stakeholders, including a greater focus on future financial stability. The local audit sector shares many of the challenges facing company audit. All of us in this sector need to be seen to be stepping up to the challenge. This Review presents a unique opportunity to change course, and to help secure the future of local audit, along with meaningful financial reporting.

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 consulted on potential changes to the Code in two stages:

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

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 stated that they considered carefully the views of respondents in respect of the points drawn out from the [Issues paper](#) and this informed 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 involved consulting on the draft text of the new Code. To support stage 2, the NAO published a consultation document, which highlighted the key changes to each chapter of the draft Code. The most significant changes are in relation to the Value for Money arrangements. The draft Code includes three specific criteria that auditors must consider:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- 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.

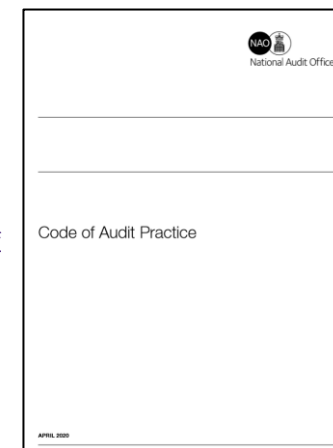
The auditor will be required to provide a commentary on the arrangements in place to secure value for money. Where significant weaknesses are identified the auditor should make recommendations setting out

- Their judgement on the nature of the weakness identified
- The evidence on which their view is based
- The impact on the local body
- The action the body needs to take to address the weakness

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

Link to NAO webpage for the new Code:

https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf



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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