

# Audit Progress Report and Sector Update

West Midlands Police and Crime Commissioner and Chief Constable

**Year ending 31 March 2021**

June 2021



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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 planning 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 the entity or all 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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# 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 emerging national issues and developments that may be relevant to you as a police body; and
- includes a number of challenge 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 Independent 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 [www.grantthornton.co.uk](http://www.grantthornton.co.uk) ..

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.

# Progress at June 2021

## Financial Statements Audit

We undertook our initial planning for the 2020/21 audit in March 2021. We expect to begin our work on your draft financial statements in June.

Our interim fieldwork included:

- Updated review of the entities' control environments
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Understanding how the Police and Crime Commissioner and the Chief Constable make material estimates for the financial statements

The results of our work to date are included in this report.

In March we issued a detailed Joint Audit Plan, setting out our proposed approach to the audit of the 2020/21 financial statements.

We will report our work in the Joint Audit Findings Report and aim to give our opinions on the Statements of Accounts by 30 September.

## Value for Money

The new Code of Audit Practice (the "Code") came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code is the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and will make more impact. Before beginning work, we will discuss with you:

- Timing
- Resourcing
- Fees

Please see pages 12 to 14 for further details.

# Progress at June 2021 (cont.)

## Other areas

### Meetings

We met with Finance Officers in March as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

## Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2020/21 is the third 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 Local Government and Police sector in 2018/19 and 2019/20 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 Local Government 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 have reviewed the impact of these changes on both the cost and timing of audits. We will discuss this with your s151 Officers, including any proposed variations to the Scale Fee set by PSAA Limited, and communicate 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 financial reporting.

# Audit Deliverables

2020/21 Deliverables	Planned Date	Status
<b>Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Joint Audit Committee setting out our proposed approach in order to give an opinion on the 2020-21 financial statements.	March 2021	Issued
<b>Interim Audit Findings</b> We will report to you the findings from our interim audit within our Progress Report.	June 2021	In this report
<b>Audit Findings (ISA260) Report</b> The Audit Findings Report will be reported to the September Joint Audit Committee.	September 2021	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statements and annual governance statement.	September 2021	Not yet due
<b>Auditor's Annual Report</b> The key output from local audit work on arrangements to secure VFM is an annual commentary on arrangements, which will be published as part of the Auditor's Annual Report (AAR). A draft of the AAR will be taken to the September Joint Audit Committee. The final version of the AAR will be published later, but prior to the deadline of three months after we issue our Audit Report.	September 2021 (draft) December 2021	Not yet due

# 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
<b>Internal audit</b>	We have also reviewed internal audit's work on the Authority's key financial systems to date.	Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
<b>Entity level controls</b>	<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"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	Our work has identified no material weaknesses which are likely to adversely impact on the Group's financial statements.
<b>Review of information technology controls</b>	Our information systems specialists are in the process of performing a high level review of the general IT control environment, as part of the overall review of the internal controls system.	Our work is ongoing, and we will update the Joint Audit Committee in our Audit Findings Report.
<b>Walkthrough testing</b>	We have completed walkthrough tests of the Groups' controls operating in areas where we consider that there is a significant risk of material misstatement to the financial statements.	Our work has not identified any weaknesses which impact on our audit approach.
<b>Journal entry controls</b>	We have reviewed the Authority's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Authority's control environment or financial statements.	This work will drive the detailed testing that we do in this area during our audit visit beginning in June.

# 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.

Public Sector

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

Police



## HMICFRS's proposed 2021/22 policing inspection programme and framework

HMICFRS has launched a consultation which welcomes views on our proposed policing inspection programme for the coming year. The consultation is open until **Tuesday 18 May 2021**.

Types of inspection in 2021/22 comprise of:

- PEEL assessments;
- National thematic inspections;
- Commissions from the Home Secretary and local policing bodies
- Inspection of national agencies and other non-Home Office forces
- Joint inspections
- State of Policing report

The consultation asks for views on whether the review cover the right themes and areas of policing. In particular, HMICFRS are seeking responses to the following consultation questions:

- 1.Do these proposed thematic inspections cover those areas that are of most concern to you at the moment?
- 2.Are there any significant new or emerging problems in policing that HMICFRS should take into account in its inspection activity?
- 3.How else could HMICFRS adapt the way in which it acquires information to take account of current circumstances and risks to public safety?

The consultation can be accessed [here](#).

## Police generally responded well to exceptional circumstances of pandemic

Based on an inspection of policing between March and November 2020, Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) said that although there were some inconsistencies, in general police forces took immediate and decisive action to respond to the extreme circumstances of the pandemic.

HMICFRS found that during the first lockdown the demand on policing changed. There were fewer reports of some crimes such as theft and robbery, and an increased need to support the work of other frontline services as well as enforcing lockdown restrictions. This change meant forces utilised their resources differently. For example, some forces were able to clear backlogs of outstanding arrest warrants.

Inspectors also found that the fast-paced announcement and introduction of new legislation affected some forces' ability to produce timely and clear guidance for staff. This sometimes led to confusion over the difference between legislation and government guidance, with the inspectorate stressing that the police can only enforce legislation.

The inspectorate acknowledged the criticism some forces faced for their interpretation of lockdown restrictions, including undertaking road checks to identify unnecessary journeys, drone surveillance, and police action in relation to non-essential shopping and what was thought to be excessive exercise.

While these actions were viewed by some as heavy-handed or inconsistent, inspectors were assured that police forces had learnt from these instances and in general did well to maintain public trust.

The full report can be accessed [here](#).

# Home Office

## Recruitment drive delivers almost 9,000 additional police

An extra 8,771 police officers have been recruited to cut crime and keep communities across the country safer as part of the government's campaign to bring in 20,000 additional officers, new Home Office figures show.

As of 31 March 2021, every one of the 43 police forces in England and Wales has hit or surpassed its first-year recruitment target since the launch of the Police Uplift Programme in September 2019.

The new figures show that the government is already 44% of the way towards meeting its ambition of hiring 20,000 additional officers by 2023, with many of these new recruits already on the streets and doing their bit to protect neighbourhoods.

The Police Uplift Programme is an unprecedented opportunity to create a more representative police workforce, and the statistics show that forces are more diverse than ever before.

More women (45,996) are now employed as police officers in forces across England and Wales than ever before. Since April 2020, 42% (5,037) of the new recruits have identified as female.

The number of Black, Asian and other ethnic minority officers is also now at its highest point on record, with 10,218 officers from these communities employed in forces across England and Wales. Since April 2020, recruits from these communities have made up 10.6% (1,212) of all joiners.

The data shows the appetite for thousands to join the police has continued despite the coronavirus pandemic, with online assessment processes, virtual career fairs, and internet workshops continuing to run safely during lockdown.

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

## Home Secretary to strengthen Police and Crime Commissioner role

Police and Crime Commissioners (PCCs) will be more accountable to the communities they serve as a result of a review led by Home Secretary Priti Patel, by requiring them to explain their record on crime to the public and strengthening their relationship with the Chief Constable and force.

The review will ensure the public have transparent, democratically-elected, local leaders who are equipped to drive down crime and deliver the safer communities the public deserve. It could also see them lead a wider range of services, in time, such as fire and rescue.

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



Home Office

# The new approach to Value for Money

## The nature of value for money work

Section 20 and 21 of the Local Audit and Accountability Act 2014 (the Act), require auditors to be satisfied that the body “has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources”. The auditor’s work on VFM arrangements is undertaken in accordance with the Code and its supporting statutory guidance. The Comptroller and Auditor General has determined through the 2020 Code and guidance that the key output from local audit work in respect of VFM arrangements is the commentary as reported in the Auditor’s Annual Report. It is therefore not a VFM arrangements ‘conclusion’ or an ‘opinion’ in the same sense as the opinion on the financial statements themselves. The Act and the Code require auditors to consider whether the body has put in place ‘proper arrangements’ for securing VFM. The arrangements that fall within the scope of ‘proper arrangements’ are set out in ‘AGN 03 Auditors’ work on VFM arrangements’, which is issued by the NAO. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria:

## Financial sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services, including how the body:

- ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- plans to bridge its funding gaps and identifies achievable savings;
- plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;

- ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and
- identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

## Governance

How the body ensures that it makes informed decisions and properly manages its risks, including how the body:

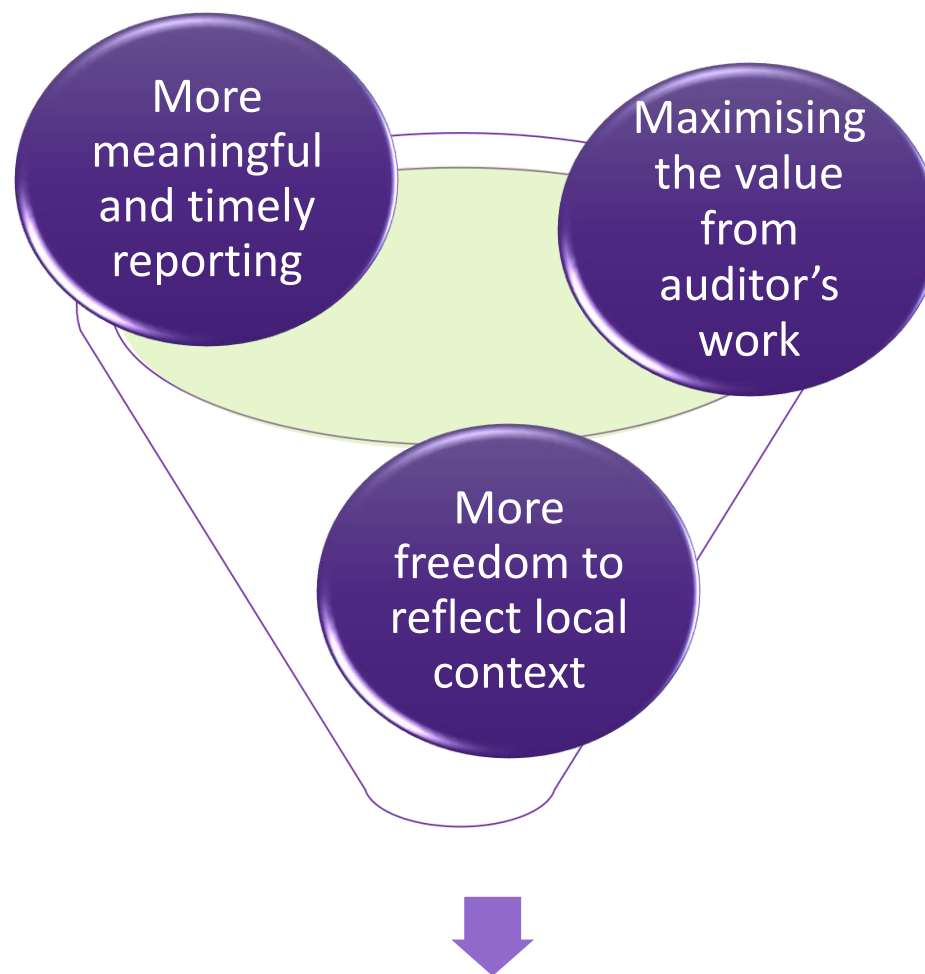
- monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- approaches and carries out its annual budget setting process;
- ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee; and
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

# The new approach to Value for Money

## 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, including:

- how financial and performance information has been used to assess performance to identify areas for improvement;
- how the body evaluates the services it provides to assess performance and identify areas for improvement;
- how the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve; and
- where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.



**VFM arrangements commentary and recommendations**

# The new approach to Value for Money

**The table below details what will be reported in the Auditor's Annual Report:**

Section of report	Content
Commentary on arrangements	An explanation of the VFM work that has been undertaken during the year, including the risk assessment and any further risk-based work. It will also highlight any significant weaknesses that have been identified and brought to the body's attention. The commentary will allow auditors to better reflect local context and draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the body itself.
Recommendations	Where an auditor concludes that there is a significant weakness in a body's arrangements, they report this to the body and support it with a recommendation for improvement.
Progress in implementing recommendations	Where an auditor has reported significant weaknesses in arrangements in the previous year, the auditor should follow up recommendations issued previously and include their view as to whether the recommendations have been implemented satisfactorily.
Use of additional powers	Where an auditor uses additional powers, such as making statutory recommendations or issuing a public interest report, this should be reported in the auditor's annual report.
Opinion on the financial statements	The auditor's annual report also needs to summarise the results of the auditor's work on the financial statements.

**The table below details the three types of recommendations that auditors can make. Auditors may make recommendations at any time during the year.**

Type of recommendation	Definition
Statutory recommendation	Where auditors make written recommendations to the body under Section 24 and Schedule 7 of the Local Audit and Accountability Act 2014. A recommendation of this type requires the body to discuss and respond publicly to the report.
Key recommendation	Where auditors identify significant weaknesses in a body's arrangements for securing value for money, they have to make recommendations setting out the actions that the body should take to address them
Improvement recommendation	Where auditors do not identify a significant weakness in the body's arrangements, but still wish to make recommendations about how the body's arrangements can be improved

# Good practice in annual reporting – National Audit Office

The National Audit Office (NAO) state that the guide, launched in February, “Sets out our good practice principles for good annual reporting and provides illustrative examples taken from public sector organisations who are leading the way in this area.”

The guide draws on examples of good practice from within each of the six sections of an Annual Report:

- Strategy
- Risk
- Operations
- Governance
- Measures of success
- Financial performance

The NAO also state that the guide “provides further examples where bodies have made their context more understandable to the reader through use of graphics and clear language and signposting.”

However, The NAO observe “Done well, reporting in the public sector enables the public and Parliament to understand – with ease and confidence – an organisation’s strategy and the risks it faces, how much taxpayers’ money has been spent and on what, and what has been achieved as a result.”

Further, the NAO note “The significant impacts of the pandemic emerged in the UK in mid-March 2020. This means that, for many organisations, the reporting impact will be greater in 2020-21 than in the prior year. Transparent annual reporting will help stakeholders understand the impact of COVID-19 on an organisation’s strategy, plans and operational and financial performance.”



The full report can be obtained from the NAO website:

<https://www.nao.org.uk/report/good-practice-in-annual-reports-february-2021/>



# 2019/20 audited accounts – Public Sector Audit Appointments

In December 2020 Public Sector Audit Appointments (PSAA) published figures relating to the audit of 2019/20 local authority financial statements.

PSAA report “Audit arrangements in local councils, police, fire and other local government bodies are continuing to exhibit signs of stress and difficulty. In the latest audit round, focusing on 2019/20 financial statements and value for money arrangements, fewer than 50% of bodies’ audits were completed by the revised target of 30 November.

Figures compiled by PSAA, the organisation responsible for appointing auditors to 478 local bodies, reveal that 55% (265) of audit opinions were not issued by 30 November. This is a further deterioration on 2018/19 audits when 43% of opinions (210 out of 486) were delayed beyond the then target timetable of 31 July.

This year’s timetable has been deliberately eased by Ministers in recognition of the underlying pressures on the audit process and the significant added complications arising from the Covid-19 pandemic. The pandemic has posed practical challenges for bodies in producing accounts and working papers, and for auditors to carry out their testing. Both sets of staff have had to work remotely throughout the period, and the second national lockdown came at a critical point in the cycle.

Questions and concerns about the potential implications of the pandemic for some bodies have meant that both finance staff and auditors have needed to pay particular attention to the financial position of each entity. Additionally, following a series of increasingly challenging regulatory reviews, auditors have arguably been more focused than ever on their professional duty to give their opinion only when they are satisfied that they have sufficient assurance.”



The news article can be found here:

[News release: 2019/20 audited accounts – PSAA](#)





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