

Joint Audit Committee Update for the West Midlands Police and Crime Commissioner and the Chief Constable of the West Midlands

Progress Report and Update Year ended 31 March 2017

September 2017

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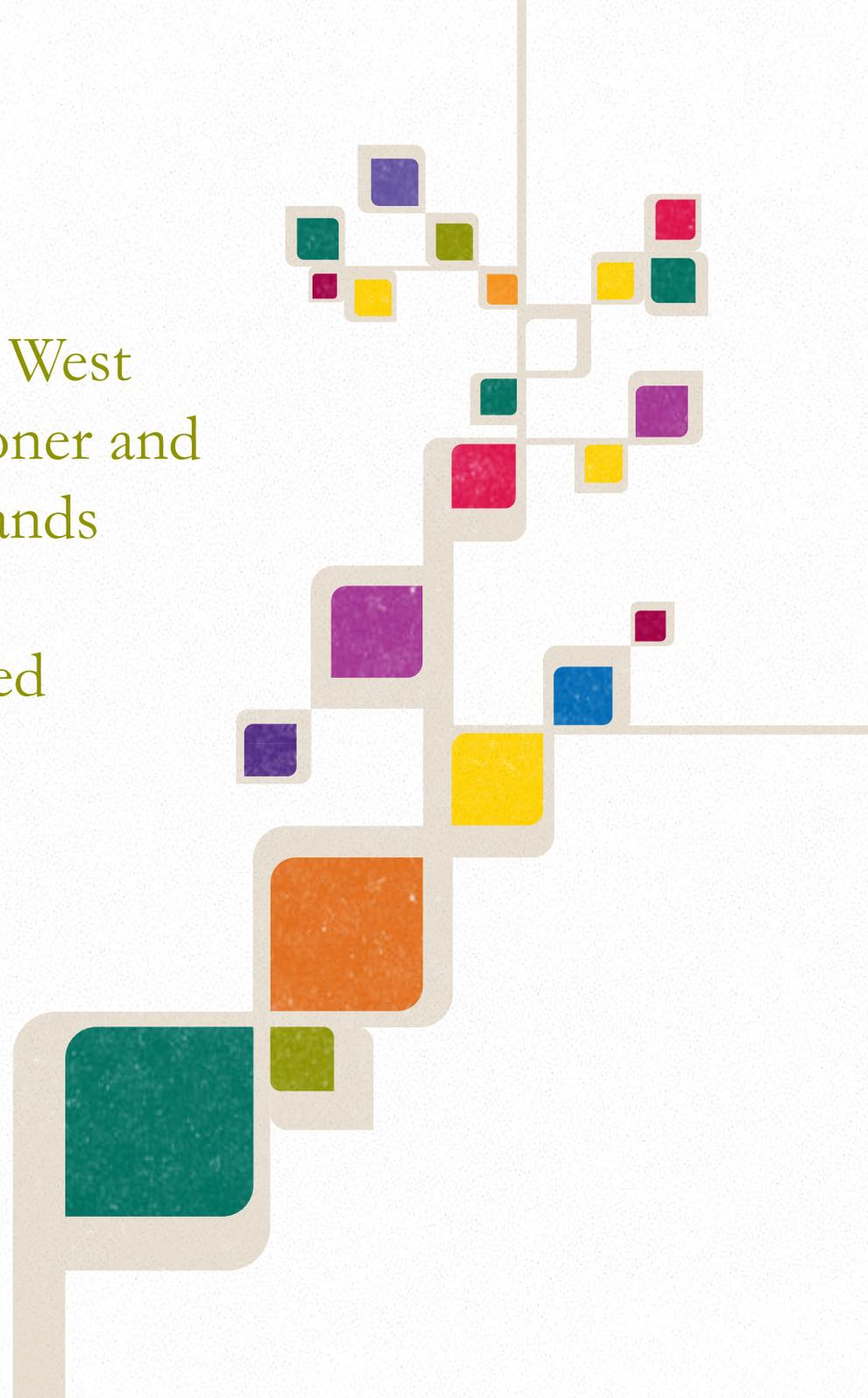
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Introduction

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



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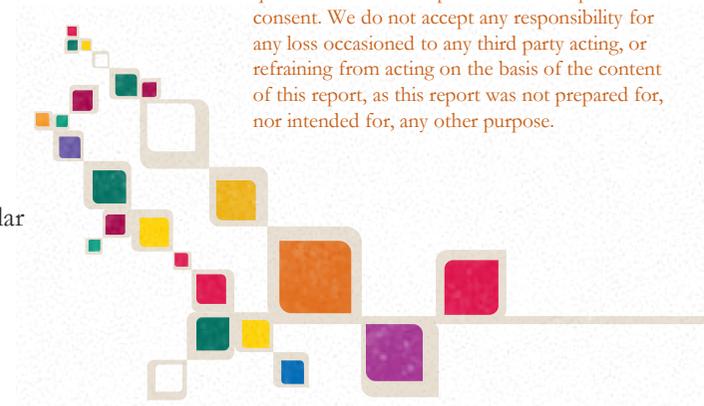
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Members of the Joint Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

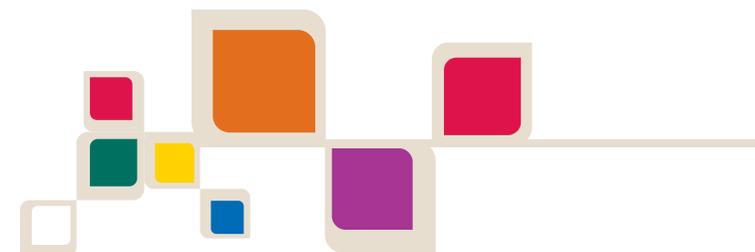
- **‘Hard’ or ‘soft’ Brexit: balancing autonomy and access (August 2017);**
<http://www.grantthornton.co.uk/en/insights/hard-or-soft-brexite-balancing-autonomy-and-access/>
- **A global Britain needs more local government not less (April 2017);**
<http://www.grantthornton.co.uk/en/insights/a-global-britain-needs-more-local-government-not-less/>
- **Addressing challenges in policing and governance (March 2017);**
<http://www.grantthornton.co.uk/en/insights/addressing-challenges-in-policing-and-governance/>

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.

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.

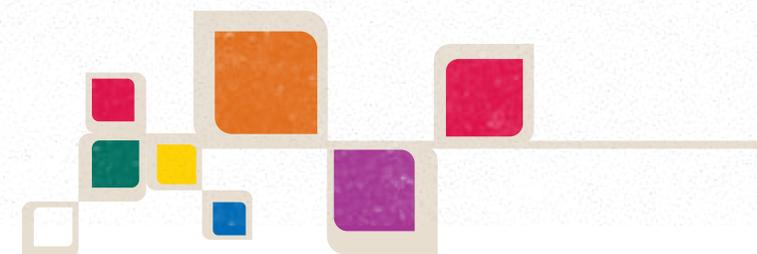


Progress to date



2016/17 work	Planned Date	Complete?	Comments
<p>Fee Letter</p> <p>We are required to issue a 'Planned fee letter' for 2016/17 to both the Police and Crime Commissioner and the Chief Constable by the end of April 2016.</p>	April 2016	Yes	The 2016/17 fee letters were issued in April 2016
<p>Accounts Audit Plan</p> <p>We are required to issue a detailed accounts joint audit plan covering the audit for the Police and Crime Commissioner and the Chief Constable setting out our proposed approach in order to give an opinion on the Police and Crime Commissioner's group financial statements, including the statements of the Chief Constable in 2016/17.</p>	March 2017	Yes	<p>We continue to assess the risks facing you and meet with Senior Officers to ensure that these risks are fully understood and our audit work is appropriate.</p> <p>If there are any changes to our plan between our initial risk assessment and the delivery of our opinion we will discuss this with the appropriate Senior Officers and agree with the Police and Crime Commissioner and Chief Constable.</p>
<p>Interim accounts audit</p> <p>Our interim fieldwork visits covers work on both the Police and Crime Commissioner and the Chief Constable arrangements, including:</p> <ul style="list-style-type: none"> • updating our review of the control environments • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion work. 	January – April 2017	Yes	<p>We have:</p> <ul style="list-style-type: none"> • engaged with the finance teams to streamline and improve the audit approach for 2016/17 where possible • Discussed any technical issues early, including the restatement of the CIES • Undertaken as much early testing as possible. <p>We continue to work closely with Internal Audit in relation to risk, work on the financial statements and fraud.</p>
<p>Final accounts audit</p> <p>Covering the Police and Crime Commissioner's group financial statements, including the statements of the Chief Constable, we will :</p> <ul style="list-style-type: none"> • audit the 2016/17 financial statements • issue opinions on the 2016/17 financial statements 	June – September 2017	Yes	<p>We have substantially completed the work on your draft financial statements to provide an opinion by the statutory deadline which is 30 September 2017. We are planning to issue our opinions ahead of this, following the completion of our work and meetings with the Police and Crime Commissioner and Chief Constable. For the majority of the audit, we were able to deliver work earlier as part of the transition to the earlier closedown and audit cycle from 2017/18. We will continue to work closely with the finance team to ensure that we are able to meet the revised deadline of 31 July in 2017/18.</p>

Progress to date



2016/17 work	Planned Date	Complete?	Comments
<p>Whole of Government Accounts (WGA)</p> <p>Work on the WGA will commence alongside the final accounts audit, with a view to complete this before the audited 2016/17 financial statements are signed in July.</p>	August 2017	In progress	At the time of writing this report, we were substantially complete for this element of this audit. We will provide the necessary assurance to support your WGA submission ahead of the required deadline at the same time as your opinion is provided.
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2016/17 VfM Conclusion requires conclusions on whether:</p> <p><i>"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".</i></p> <p>This change of guidance was issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties 	February – July 2017	Yes	<p>We completed our initial risk assessment which identified five significant risks. These were reported within the Audit Plan and cover:</p> <ul style="list-style-type: none"> • Police and Crime Plan • WMP 2020 • Portfolio management arrangements • Benefits realisation of major change programmes • Medium term financial strategy <p>Our work on the VfM Conclusion included attending meeting with key Senior Officers and key document reviews.</p> <p>Identifying risks is a dynamic process and our work with Officers identified two further risks in relation to the governance arrangements for the procurement of the Operating Policing Solutions (OpPolSol) and Digital Driven Insights (DDI) projects. The additional fee for the work on these additional risks will be agreed with Management and submitted to PSAA for approval prior to invoicing.</p>
<p>Annual Audit Letter</p> <p>We will summarise all the work completed as part of our 2016/17 audit within one letter which will be issued after the opinion.</p>	October 2017	Not started	We summarise all audit work undertaken in 2016/17 and present this in a letter, agreed with management and submit in line with the PSAA deadline.
<p>Engagement with you since the last Joint Audit Committee meeting</p>			<ul style="list-style-type: none"> • Meetings with key Senior Officers to update on your business and significant risks facing the Police and Crime Commissioner and the Chief Constable • Meeting with the Head of Internal Audit to discuss risk assessments and coverage of work • Completion of assurance regarding IT controls

Police Sector Accounting and other issues





Code of Practice on Local Authority Accounting in the United Kingdom 2017/18

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2017/18. The main changes to the Code include:

- amendments to section 2.2 (Business Improvement District Schemes (England, Wales and Scotland), Business Rate Supplements (England), and Community Infrastructure Levy (England and Wales)) for the Community Infrastructure Levy to clarify the treatment of revenue costs and any charges received before the commencement date
- amendment to section 3.1 (Narrative Reporting) to introduce key reporting principles for the Narrative Report
- updates to section 3.4 (Presentation of Financial Statements) to clarify the reporting requirements for accounting policies and going concern reporting
- changes to section 3.5 (Housing Revenue Account) to reflect the Housing Revenue Account (Accounting Practices) Directions 2016 disclosure requirements for English authorities
- following the amendments in the Update to the 2016/17 Code, changes to sections 4.2 (Lease and Lease Type Arrangements), 4.3 (Service Concession Arrangements: Local Authority as Grantor), 7.4 (Financial Instruments – Disclosure and Presentation Requirements)
- disclosure of investment management transaction costs and clarification on the approach to investment concentration disclosure.

Challenge questions:

- Are officers aware of the changes to the 2017/18 Code and have they assessed the potential impact?



Apprenticeship Levy

In April 2017, HMRC introduced the apprenticeship levy. Employers with a pay bill over £3 million each year must pay the apprenticeship levy from 6 April 2017.

HMRC have been giving further consideration as to whether the PCC and Chief Constable are connected companies under Schedule 1 of NICA 2014, and the legal status of a Police and Crime Commissioner (PCC) and the Chief Constable. HMRC has reviewed again the apprenticeship levy position for PCCs and Chief Constables. In particular, they have considered the Local Government Finance Act 1992 and can see that Section 26 of the Police Reform and Social Responsibility Act 2011 has amended the definition of “precepting authority” in section 39 of the Local Government Finance Act 1992 to include a PCC. A PCC therefore can’t be considered to be a company within the meaning of section 1121 of the Corporation Tax Act 2010, which excludes a local authority from the definition of company for the purposes of the Corporation Tax Acts.

In HMRC’s view, the connected companies rules therefore do not apply and so the question of control does not arise. This therefore means that PCCs and Chief Constables will each be entitled to a £15,000 levy allowance.

Challenge questions:

- Are officers aware of the latest HMRC development and have they considered how this will impact the PCC and CC?



Police Workforce England and Wales statistics

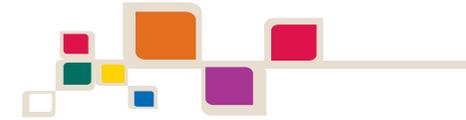
The Home Office reported the latest workforce statistics via the biannual Police Workforce, England and Wales Publication in July 2017. The report publishes statistics on police workforce numbers in the 43 police forces in England and Wales and the British Transport Police and covers data for police officers, police staff, police community support officers, designated officers and special constables. The datasets present information to 31 March 2017.

Key findings were as follows:

- **Police workforce** - There were 198,684 workers employed by the 43 police forces in England and Wales on 31 March 2017, a decrease of 2,237 or 1% compared with a year earlier. This is the lowest number in the police workforce since 31 March 2003. Similarly, police officer numbers have decreased in the last year, to 123,142 officers as at 31 March 2017. This is the lowest number of police officers at the end of a financial year since comparable records began in 1996. Records earlier than this are not directly comparable; however, they indicate that this is the lowest number of officers since 1985.
- **Joiners** - In 2016/17, 7,526 officers joined the 43 police forces in England and Wales, accounting for 6% of all officers. Excluding those who transferred from other forces, joiners accounted for 5% of all officers. This was an increase of 58% compared with the number of joiners in the previous year (4,755 joiners).
- **Diversity** - As at 31 March 2017, 6% of all officers were Black and Minority Ethnic (BME), the highest proportion since records began. Over the last year, 11% of joiners were BME, compared with 5% of leavers. By way of comparison, 14% of the England and Wales population is BME. As at 31 March 2017, 29% of all officers were female, again the highest proportion on record, and 33% of joiners were female, while 25% of leavers were female.
- **Officer wellbeing** - As at 31 March 2017, there were 2,358 police officers on long-term sick leave. This was a 2% decrease compared with the previous year (2,404 officers on long-term sick) and accounted for 2% of all police officers in England and Wales.

Challenge questions:

- Are officers aware of the report and do the statistics represent the trends that they are seeing within your force?



Lord Ferrers Awards 2017

Nominations for the 24th annual Lord Ferrers Awards to recognise the outstanding contribution of Special Constables, Police Support Volunteers and Volunteer Police Cadets opened on 18 August 2017.

This year a new category, the 'Technical Innovation Award', has been introduced to encourage recognition of 'cyber specials' and volunteers using technology creatively to combat the changing nature of crime. Last year almost 300 nominations were submitted by police forces across England and Wales, and for the first time, members of the public could also recommend volunteers for their service, 43 exceptional candidates were shortlisted.

Members of the public have from Friday 18 August until midnight on Sunday 17 September to make nominations. The awards ceremony will take place in central London in November 2017, where the winners will be presented with their awards by Home Office Ministers, senior officials and Chief Police Officers. There are nine award categories for which nominations are invited.

Nominations can be made via <http://www.homeofficesurveys.homeoffice.gov.uk/s/FerrersAwardsNomination>

Challenge questions:

- Has the force considered nominating any of its volunteers for one of the awards categories?

Grant Thornton Publications



Shaping a vibrant economy - A blueprint for the UK

The UK is at a pivotal point in its history.

The recent election shows the need for government and politicians, nationally and locally, to work together to reshape our economy. Government cannot, and should not, do that alone. We all have a big role to play and have a desire and ability to make a difference.

Over the past 18 months, we have brought together more than 1000 community and business leaders up and down the UK to discuss what matters to them and how they can work together to bring this to life.

We collated these ideas and added feedback from our clients and contacts to create Shaping a vibrant economy - A blueprint for the UK, a set of policy recommendations that we will share with government.

We want the government to use this opportunity to unlock and accelerate our country's potential across three key areas.

- Trust - helping to restore purpose to financial markets, championing impact investing.
- Growth - putting collaboration at the heart of the UK's industrial strategy to boost exports, develop skills and unlock innovation.
- Place - devolving powers from Westminster and Brussels to foster vibrant local economies.

Grant Thornton will work with others to:

- Further develop our centre of excellence in exporting, specialising in strategy, finance and operational delivery, connecting businesses to key trade destinations and promoting global opportunities. By 2020, at least 20% of our people will have expertise in international trade.
- Roll out our School Enterprise Programme across the UK, enabling year 7 and 8 students to run their own business and develop financial literacy and entrepreneurial skills.
- Work with Touchpaper, a new not-for-profit network promoting collaboration between large corporates and start-ups, alongside other founding members: Bristows, Capgemini, Digital Catapult, Google, Multiple, Nesta and Tech City.

Our experience:

- At Grant Thornton UK we work with over 40,000 privately held businesses, public interest entities and individuals nationwide.
- Grant Thornton member firms operate in over 130 countries, linking our clients to advisers around the world.
- We advise clients on how to unlock growth in domestic and international markets.
- As part of the government's apprenticeship programme, we have led the development of a business administration and customer management apprenticeship framework and we have recently launched a graduate level

Grant Thornton reports



Further details on this insight can be found here: <http://www.grantthornton.co.uk/en/insights/shaping-a-vibrant-economy-a-blueprint-for-the-uk/>

Mental health in prisons

The Government does not know how many people in prison have a mental illness, how much it is spending on mental health in prisons or whether it is achieving its objectives.

It is therefore hard to see how Government can be achieving value for money in its efforts to improve the mental health and well being of prisoners, according to a report by the National Audit Office. Her Majesty's Prisons and Probation Service (HMPPS), NHS England and Public Health England have set ambitious objectives for providing mental health services but do not collect enough or good enough data to understand whether they are meeting them.

Rates of self-inflicted deaths and self-harm in prison have risen significantly in the last five years, suggesting that mental health and well-being in prison has declined. Self-harm rose by 73% between 2012 and 2016. In 2016 there were 40,161 incidents of self-harm in prisons, the equivalent of one incident for every two prisoners. While in 2016 there were 120 self-inflicted deaths in prison, almost twice the number in 2012, and the highest year on record. Government needs to address the rising rates of suicide and self harm in prisons as a matter of urgency.

In 2016, the Prisons and Probation Ombudsman found that 70% of prisoners who had committed suicide between 2012 and 2014 had mental health needs.

The Ministry of Justice and its partners have undertaken work to identify interventions to reduce suicide and self-harm in prisons, though these have not yet been implemented.

While NHS England uses health needs assessments to understand need these are often based on what was provided in previous years, and do not take account of unmet need. The NAO estimate that the total spend on healthcare in adult prisons in 2016-17 was around £400 million. HMPPS does not monitor the quality of healthcare it pays for in the six privately-managed prisons it oversees.

The prison system is under considerable pressure, making it more difficult to manage prisoners' mental well-being, though government has set out an ambitious reform programme to address this pressure. NOMS' (National Offender Management Service) funding reduced by 13% between 2009-10 and 2016-17, and staff numbers in public prisons reduced by 30% over the same period. When prisons are short-staffed, governors may run restricted regimes where prisoners spend more of the day in their cells, making it more challenging for prisoners to access mental health services. Staffing pressures can make it difficult for prison officers to detect changes in a prisoner's mental health and officers have not received regular training to understand mental health conditions, though the Ministry plans to provide more training in future.

The challenges of delivering healthcare are compounded by the ageing prison estate, over a quarter of which was built before 1900 and without modern healthcare in mind. The Ministry has a programme to replace the ageing estate with modern buildings.

National Audit Office reports

While clinical care is broadly judged to be good, there are weaknesses in the system for identifying prisoners who need mental health services. Prisoners are screened when they arrive in prison, but this does not always identify mental health problems and staff do not have access to GP records, which means they do not always know if a prisoner has been diagnosed with a mental illness. NHS England is in the process of linking prison health records to GP records to address this.

Post screening those identified as eligible mentally ill prisoners should wait no more than 14 days to be admitted to a secure hospital, but only 34% of prisoners were transferred within 14 days in 2016-17 while 7% (76) waited for more than 140 days.

The NAO report can be found here:

<https://www.nao.org.uk/report/mental-health-in-prisons/>

The Board: creating and protecting value

Our new cross sector Board Effectiveness Report

In all sectors, boards are increasingly coming under pressure from both the market and regulators in terms of effectiveness and accountability. Building on the success of our cross sector audit committee effectiveness survey, *Knowing The Ropes*, the Grant Thornton Governance Institute extended its research to look at the effectiveness of boards across the corporate, public and not for profit sectors.

This report raises key questions that all boards should ask themselves to challenge their effectiveness. Their organisations may operate in different sectors and be subject to a variety of statutory and governance requirements, but they all share a common overriding principle: the governing body is a collective charged with developing the organisation's purpose.

Key messages:

- There is a strong future focus on boards
- Executive behaviours tend to dominate - not the best scenario for good governance or an organisation's future focus
- There are strongly held opinions about the relationship between the board and the executive which will impact on efficiency
- More than 88% of respondents see their executives as being strong leaders of the organisation
- There is a clear focus on organisational culture and values across all sectors – 93% see the executive board members modelling the values of the organisation
- Non-executives also need to live and breathe those values – only 82% of respondents agreed that the non-executives inspire and guide the executive to realise the organisation's purpose
- Only 75% of respondents feel that the recruitment process of non-executives is rigorous, well-documented or transparent
- Over 60% of board members believe that there are adequate processes in place to evaluate performance.

This report uses the DLMA analysis which categorises skills into four areas: Directorship, Leadership, Management and Assurance. This framework allows organisations to have a better understanding about where they are focusing their energies.

Download the report here: <http://www.grantthornton.co.uk/en/insights/the-board-creating-and-protecting-value/>

Grant Thornton publications

Boards of the future

Grant Thornton publications

Background

Boards of the future: steering organisations to thrive is a report from Grant Thornton International that draws on our International Business Report for 2016 plus data and interviews from Grant Thornton teams around the world.

The report recognises that successful organisations in any sector are the ones that manage challenges and adapt to the changing world around them. It notes that over half of the top hundred biggest companies in the world in 1912 had disappeared by the late 1990s.

How do organisations ensure they survive, adapt and ultimately thrive? Fundamental to the answer is good corporate governance. And although this is nothing new, it is arguably more pertinent now than ever.

The report found:

- The best organisations keep their eyes on the challenges and opportunities coming into view, adapting to the changing world to remain relevant. They anticipate potential hazards and react accordingly.
- The demands of boards are changing, boards can take a lead in being proactive and nimble in navigating organisations through uncertain waters.
- Nearly half of the International Business Report (IBR) business leaders surveyed believe that developing and reinforcing culture should be a focus for boards over the next ten years.

What will the successful board of 2025 look like?

This is an intriguing question which will inevitably vary across sectors and geographic areas. Although governance structures differ across organisations, the demands of senior leaders and decision makers are surprisingly similar.

In regions where there is a more developed assurance and governance approach the focus is likely to be on boosting competitiveness and managing risks. From a public sector perspective, competitiveness means delivering relevant, user-focused services – often working alongside others – that are economic, efficient and effective.

Potential development areas across all sectors are:

- **strategic planning horizons** – taking a longer term view and avoiding 'knee-jerk' reactions;
- **sustainability** – from an economic and natural resources perspective;
- **corporate culture** – ensuring customer experience matches the organisation's aspirations; and
- **digital expertise** – embracing technology, reacting to change and innovating to improve service delivery.

To achieve these, the report suggests that the key strands of focus are diversity and digital.



Boards of the future

Grant Thornton publications

Diversity

The report recognises:

- Greater diversity on a board widens its peripheral vision, allowing threats and opportunities to be spotted earlier.
- There is a need for diversity of experience on boards, which is critical to ensure a spread of ideas.
- Board diversity should be aligned with service users and reflect organisational culture.

How can boards ensure appropriate diversity?

- Identify skill gaps and widen the pool of talent and experiences to ensure these are filled.
- Recognise that some challenges and opportunities of the future will be less visible, particularly to homogenous boards.
- Invest in mentoring schemes.
- Recognise that to ensure the best talent is identified and nurtured, the net needs to be cast as widely as possible.

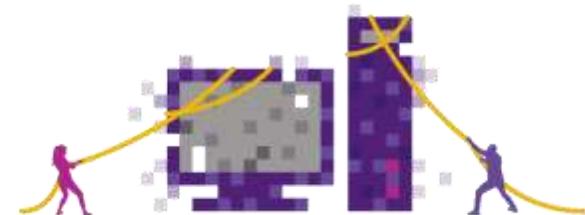
Digital

There is universal acknowledgement that digital expertise is required for boards. But those with the relevant board credentials have often not grown up with the technology or are not alert to the rapid changes and developments.

Big data, advanced analytics and automation can support organisations to develop. It is essential for all board members to embrace the digital agenda and, using relevant expertise where necessary, to spot the challenges and opportunities of the future.

How can boards enhance digital capacity?

- Collaborate with digital experts to understand digital innovations and how they can be harnessed.
- As well as boosting digital expertise on the board, make the most of external advice.
- Assess the ways your organisation is using data to drive strategies; could it be doing more?



Grant Thornton Vibrant Economy Index

A new way to measure the success of our nation

We believe a vibrant economy is one that goes beyond financial returns and takes into account the wellbeing of society and everybody's ability to thrive.

With this purpose – and input from the Vibrant Economy Commission – we sought a new way to measure the success of the economy. The Vibrant Economy Index ranks the 324 English local authority areas according to their average score across six different categories (baskets) that we believe are required to create a vibrant economy. Each basket is effectively an index in its own right, based on a set of specifically selected economic, social or environment data sets (indicators). The six baskets are:

- 1) Prosperity – are we producing wealth and creating jobs?
- 2) Dynamism and opportunity – are we developing an entrepreneurial and innovative culture to drive future growth?
- 3) Inclusion and equality – is everyone benefiting from economic growth?
- 4) Health, wellbeing and happiness – are our people living healthy, active and fulfilling lifestyles?
- 5) Resilience and sustainability – is our economy having a negative impact on the natural environment?
- 6) Community, trust and belonging – are we embracing the community, and living lively and creative cultural lives?

The index provides:

- policy-makers and place-shapers with an overview of the strengths and opportunities, challenges and weaknesses of individual places as well as the dynamic between different areas
- businesses with an understanding of their local economy and the issues that will affect investment decisions both within the business and externally
- citizens with an accurate insight into how their place is doing, so that they can contribute to shaping local discussions about what is important to them.

To read insight articles, see how places perform, learn more about the methodology, or contribute your ideas please visit our website.

<http://www.grantthornton.co.uk/insights/vibrant-economy-index/>

Grant Thornton publications

Vibrant Economy Index

A new way to
measure
England's success





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