

# The Annual Audit Letter for West Mercia Police and Crime Commissioner and West Mercia Chief Constable

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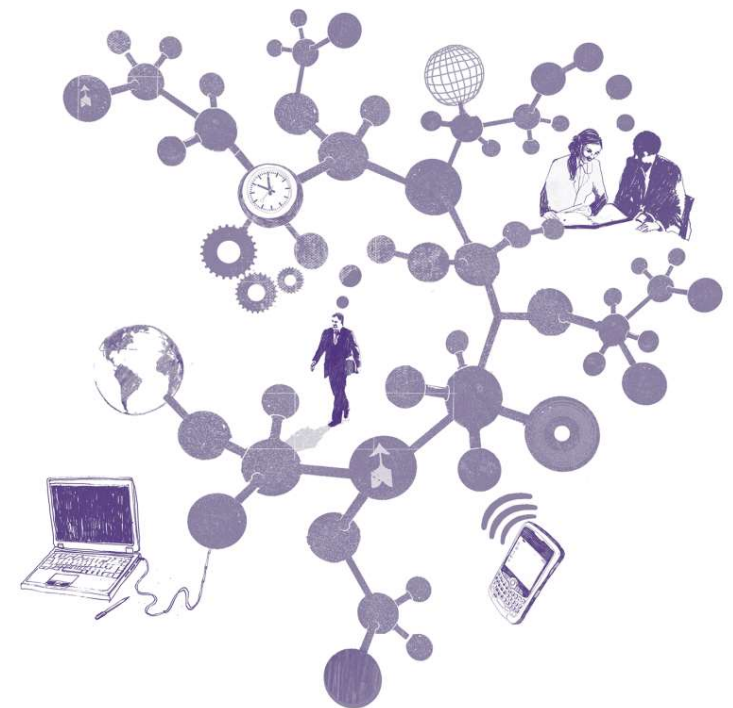
**Year ended 31 March 2017**

18 September 2017

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# Executive summary

## Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at West Mercia Police and Crime Commissioner (the PCC) and Chief Constable for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the PCC and Chief Constable and their external stakeholders, and highlights issues we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the PCC's and Chief Constable's Joint Audit Committee Committee (as those charged with governance) in our Audit Findings Report on 31 July 2017.

## Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the PCC's and Chief Constable's financial statements (section two)
- assess the PCC's and Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the PCC's and Chief Constable's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

## Our work

### Financial statements opinion

We gave an unqualified opinion on the PCC's and Chief Constable's financial statements on 31 July 2017.

### Value for money conclusion

We were satisfied that the PCC and Chief Constable put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 31 July 2017.

### Certificate

We certified that we had completed the audit of the accounts of the PCC and the Chief Constable in accordance with the requirements of the Code on 31 July 2017.

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## **Working with the PCC and Chief Constable**

We are really pleased to have worked with you over the past year. Some examples of where we have worked with you include:

An efficient audit – we delivered the accounts audit to the timescales agreed in advance. The earlier audit deadline of 31 July was delivered a year ahead when this is mandated in 2018.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.

Sharing our insight – we provided independent external audit commentary and insight in your key issues through senior attendance at every Joint Audit Committee. We have also shared with you our insights on various accounting issues including earlier closure timetables.

Supporting development – we delivered a presentation to JAC members on the role of Audit Committee members and the external auditor on 19 June 2017.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the PCC's and Chief Constable's staff.

**Grant Thornton UK LLP**  
**September 2017**

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# Audit of the accounts

## **Our audit approach**

### **Materiality**

In our audit of the PCC's and Chief Constable's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined overall materiality for the financial statements as a proportion of the smaller of gross revenue expenditure of the PCC and the gross revenue expenditure of the Chief Constable. This was £4,377,000 (being 2% of gross revenue expenditure of the PCC). We used gross revenue expenditure as the benchmark, as in our view, users of the PCC's and Chief Constable's accounts are most interested in how they have they have spent the income the PCC Group have received during the year.

We also set a lower level of specific materiality for certain areas such as senior officer remuneration and related party transactions. This is due to the public interest in these disclosures and the statutory requirement for them to be made.

We set a lower threshold of £219,000, above which we reported errors and uncertainties to the PCC and Chief Constable in our Audit Findings Report.

### **The scope of our audit**

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the PCC's and Chief Constable's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative reports and annual governance statements to check they are consistent with our understanding of the PCC and Chief Constable and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the PCC's and Chief Constable's businesses and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the accounts – Police and Crime Commissioner and Chief Constable

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<b>Improper revenue recognition</b> Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition .	We rebutted this presumed risk for the PCC because: <ul style="list-style-type: none"><li>• revenue is principally grant allocations from central government; council tax payers, and business rates.</li></ul> We rebutted this presumed risk for the Chief Constable because: <ul style="list-style-type: none"><li>• revenue is an inter group transfer from the PCC</li><li>• revenue does not involve cash transactions.</li></ul> <b>We did not identify any issues to report.</b>
<b>Valuation of pension fund net liability</b>  The Chief Constable's pension fund liability as reflected in the balance sheet represent significant estimates in the financial statements.  The Local Government Pension Scheme (LGPS) pension net liability as reflected in the balance sheet, and asset and liability information disclosed in the notes to the accounts, represent significant estimates in the financial statements.  The Police Officer Pension schemes pension fund liability as reflected in its balance sheet and notes to the accounts represent significant estimates in the financial statements.	As part of our audit work we: <ul style="list-style-type: none"><li>• identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement</li><li>• reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation is carried out</li><li>• undertook procedures to confirm the reasonableness of the actuarial assumptions made</li><li>• reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li></ul> <b>We were satisfied from our testing of the pension fund net liability that this was fairly stated.</b>

# Audit of the accounts – Police and Crime Commissioner and Chief Constable

Risks identified in our audit plan	How we responded to the risk
<p><b>Valuation of property, plant and equipment</b></p> <p>The PCC revalues its assets on a rolling basis over a five year period.</p> <p>The Code requires that the PCC ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• reviewed management's processes and assumptions for the calculation of the estimate</li> <li>• reviewed the competence, expertise and objectivity of any management experts used</li> <li>• reviewed the instructions issued to valuation experts and the scope of their work</li> <li>• discussed with the valuer the basis on which the valuation is carried out</li> <li>• reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding.</li> <li>• tested revaluations made during the year to ensure they were input correctly into the PCC's asset register</li> <li>• evaluated the assumptions made by management in their review of those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value</li> </ul> <p><b>We were satisfied from our testing that property, plant and equipment is materially stated.</b></p> <p>Our testing identified that not all the desktop revaluations were input into the fixed asset register as the movements were not material. However, the total value of upward valuations not input was £442k, the total of downward valuations not input was £93k.</p> <p>Whilst we were satisfied this had no material impact on the accounts, we are required by Auditing Standards to report this to you as the movement is above our audit triviality level.</p>
<p><b>Employee remuneration</b></p> <p>Employee remuneration accruals understated (Remuneration expenses not correct)</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the employee remuneration transaction cycle</li> <li>• walked through the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• substantively tested a sample of staff and officer payroll payments, ensuring that payments were made in accordance with the individual's contract of employment</li> <li>• tested the reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems and interfaces</li> <li>• analysed trends to identify any anomalous areas for further investigation</li> <li>• tested to confirm the completeness of payroll transactions and appropriate cut-off</li> </ul> <p><b>We did not identify any issues to report.</b></p>

# Audit of the accounts – Police and Crime Commissioner and Chief Constable

Risks identified in our audit plan	How we responded to the risk
<b>Operating expenses</b> Creditors understated or not recorded in the correct period (Operating expenses understated)	<p>As part of our audit work we:</p> <ul style="list-style-type: none"><li>• documented our understanding of processes and key controls over the operating expenses transaction cycle</li><li>• walked through the key controls to assess whether those controls were in line with our documented understanding</li><li>• undertook cut off testing of purchase orders and goods received notes</li><li>• reviewed the year-end accruals process</li><li>• reviewed the year-end control account reconciliations</li><li>• tested unrecorded liabilities by reviewing payments after year-end</li><li>• tested a sample of operating expenses covering the financial year to ensure they were accurately accounted for</li><li>• tested a sample of creditor balances at 31/3/17.</li></ul> <p><b>We did not identify any significant issues to report.</b></p>



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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the PCC's and Chief Constable's accounts on 31 July 2017, two months in advance of the 30 September 2017 national deadline.

The PCC and Chief Constable made the accounts available for audit in line with the agreed timetable, and provided a good set of supporting working papers. The accounts presented for audit were prepared to a very good standard, subject only to a small number of disclosure amendments. The finance team responded promptly and efficiently to our queries during the audit.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit of the accounts to the PCC and Chief Constable and the Joint Audit Committee on 31 July 2017.

Our audit did not identify any material errors or uncertainties in the PCC, Chief Constable and Group financial statements. Management amended the PCC, Group and Chief Constable accounts for the disclosure changes identified during the audit. These were primarily to correct minor errors and improve the presentation of the accounts.

We identified that not all the desktop revaluations were input into the fixed asset register as the movements were not material. However, the total value of upward valuations not input was £442k, the total of downward valuations not input was £93k. We are satisfied this is not a significant amount, and that property values are materially fairly stated as at 31 March 2017. Management have agreed to process the desktop valuations in the register by 31 March 2018.

We also identified that, whilst borrowings are correctly split between short and long term in the accounts; there is one ledger code for borrowings. Management agreed to introduce a ledger code for short term borrowings in 2017/18.

## **Annual Governance Statement and Narrative Report**

We are required to review the PCC's and Chief Constable's Annual Governance Statements and Narrative Reports. Both entities published them on their websites with the draft accounts in line with the national deadlines.

All documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the PCC and Chief Constable and with our knowledge of the PCC and Chief Constable.

## **Other statutory duties**

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the PCC's and Chief Constable's accounts and to raise objections received in relation to the accounts.

We did not apply any additional powers. No electors raised questions about the PCC's or Chief Constable's accounts or raised objections in relation to the accounts.

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# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in the table overleaf.

## Overall VfM conclusion

We are satisfied that in all significant respects the both the PCC and the Chief Constable put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

# Value for Money

## Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p><b>Implementation of Project Athena</b> A go live date for Athena could not be provided at the time we carried out our planning. This was due to uncertainty with Back Record Conversion and ongoing review of delivery activity across the Athena Management Organisation (AMO).</p> <p>The Alliance is reliant on the system supplier and AMO for the joint delivery of BRC outcomes.</p> <p>Phase one training for Athena implementation has taken place. Phase two training will not take place until there is confidence in the completion date for BRC activity.</p> <p>Continued delays with the project may impact the cost of maintaining the support team; result in further delays of phase two training and further delay the realisation of the benefits of the project which is a key part of delivering the Vision 2020 programme.</p>	<p>We reviewed the project management and risk assurance frameworks established by the PCC and the Chief Constable to establish how they are identifying, managing and monitoring these risks and also consider the effectiveness of actions being taken to mitigate the impact of ongoing delays with this project.</p>	<p>Overall, we are satisfied that the Athena project is being managed adequately. There are regular meetings to consider progress and regular updating of the project risk register. As part of this, management considers and implements alternate approaches such as the decision to apply BRC just to live records and rely on an alternate system for access to historic records. Regular updates on progress with Athena are provided to the Alliance Governance Group and Executive Board Chief Officer Meetings. There are regular communications with officers and staff inviting people to attend training sessions and advising them of the go live date. We are satisfied that the project is being managed adequately to minimise the impact of ongoing delays to the project, and it is currently on track to go live on 29 September 2017.</p> <p><b>On that basis we concluded that the risk was sufficiently mitigated and the PCC and Chief Constable each have proper arrangements in place for the implementation of Project Athena.</b></p>

# Value for Money

Risk identified	Work carried out	Findings and conclusions
<p><b>Health and Well-being</b> Health and well-being of the workforce continues to be a priority for the Chief Constable as it is recognised that this is key to achieving transformational change. Many actions are being taken to ensure health and well-being of the workforce and this is one of the risks noted within the Alliance risk map.</p> <p>Improvements have been seen in attendance, although sickness absence increased in the period October to December 2016.</p> <p>It is recognised that Alliance Leadership and the HR function are instrumental in mitigating stress amongst officers and staff during transformational change which may impact on people's locations and working patterns.</p>	<p>We assessed how change, culture and wellbeing issues continues to be managed, measured and reported internally.</p>	<p>The importance of people in achieving the Alliance's transformational change is acknowledged in The People Strategy for 2015-18 which identifies six priority people areas. One of these is Health and Well-Being (HWB). The Chief Constables chair the HWB Board. Feedback from people is regularly obtained via staff surveys which highlight areas to work on and an action plan is developed and monitored. Progress is monitored at the Board. An employee assistance programme (PAM) was launched in February 2017 as part of ongoing initiatives to support HWB.</p> <p>Whilst the Alliance and the PCCs have many health and wellbeing initiatives in place, sickness levels are increasing. Currently, per Quarter 4 performance data increasing sickness levels have not had an adverse impact on performance measures such as response times and contact handling.</p> <p>Whilst the increase in sickness rates compared to the prior year is a concern, we are satisfied that the PCC and the Chief Constable are taking adequate steps to address sickness levels and to ensure the health and wellbeing of their workforce remains a continuing priority.</p> <p>Overall we are satisfied that there are adequate arrangements in place to ensure the sickness absence issues are being managed appropriately.</p> <p><b>On that basis we concluded that the risk was sufficiently mitigated and the PCC and Chief Constable each has proper arrangements in place.</b></p>
<p><b>HMIC Inspection findings</b> HMIC's State of Policing rated West Mercia as "requiring improvement" in the area of effectiveness. HMIC was due to grade the force in this area in Spring 2017. Work is ongoing to address the findings of the previous HMIC inspection and progress in delivering improvements is regularly reported to Alliance Governance Group, the Executive Board and the Joint Audit Committee.</p> <p>We are required to consider the findings of HMIC as part of our VFM work.</p>	<p>We reviewed how the Force continued to implement and monitor delivery of plans to address the findings of Her Majesty's Inspectorate of Constabulary. We also considered HMIC's overall grading of the force due in Spring 2017.</p>	<p>We are satisfied that the Alliance has a clear process in place to respond to the outcome of HMIC inspections. HMIC published its grading of "good" for effectiveness on 2 March 2017. This risk was therefore mitigated as a result of this.</p> <p><b>On that basis we concluded that the risk was sufficiently mitigated and the PCC and Chief Constable each has proper arrangements in place.</b></p>

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# Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit confirm there were no fees for the provision of non audit services.

## Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Police and Crime Commissioner audit	34,260	34,260	34,260
Chief Constable audit	18,750	18,750	18,750
<b>Total fees (excluding VAT)</b>	<b>53,010</b>	<b>53,010</b>	<b>53,010</b>

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

## Reports issued

Report	Date issued
Audit Plan	20 March 2017
Audit Findings Report	31 July 2017
Annual Audit Letter	18 September 2017



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