



The Annual Audit Letter for Warwickshire Police and Crime Commissioner and Warwickshire Chief Constable

Year ended 31 March 2016

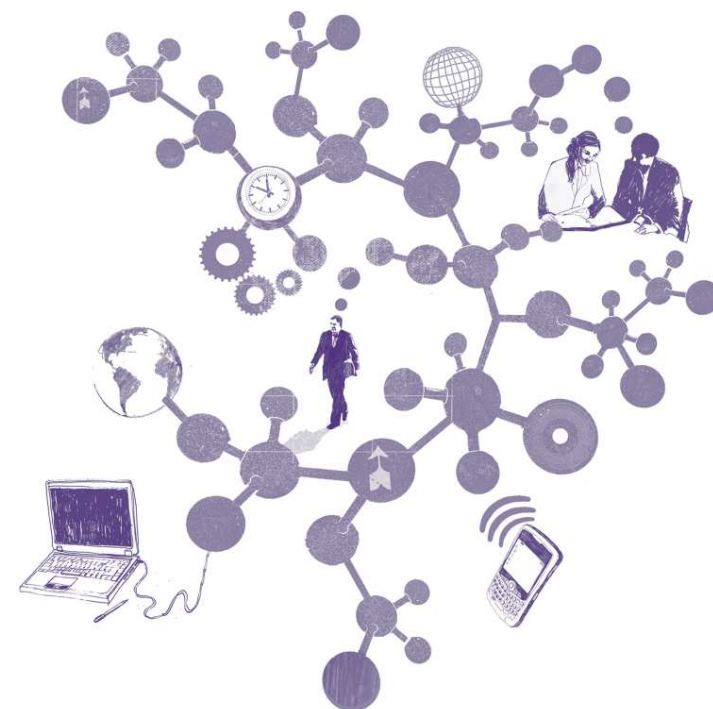
October 2016

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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Warwickshire Police and Crime Commissioner (the PCC) and Chief Constable for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the PCC and Chief Constable and their external stakeholders, and to highlight issues that 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 and Chief Constable as those charged with governance in our Audit Findings Report. This was also reported to the Joint Audit Committee on 19 September 2016.

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 their 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 21 September 2016.

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 their use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 21 September 2016.

Certificate

We certified that we had completed the audit of the accounts of the Warwickshire PCC and the Warwickshire Chief Constable in accordance with the requirements of the Code on 21 September 2016.

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.

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 ran our national Police Audit Committee conference in April 2016 for Audit Committee members.

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
October 2016

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 £2,045,000 (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 £102,000, 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 that 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 by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the PCC and Chief Constable and with the accounts on which we give 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 business 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
Improper revenue recognition 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">• revenue is principally grant allocations from central government; council tax payers, and business rates. We rebutted this presumed risk for the Chief Constable because: <ul style="list-style-type: none">• revenue is an inter group transfer from the PCC• revenue does not involve cash transactions. We did not identify any issues to report.
Management over-ride of controls Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities. .	As part of our audit work we completed: <ul style="list-style-type: none">• a review of entity controls• an examination and testing of accounting estimates, judgements and decisions made by management• testing of journals entries to include year end adjusting entries• a review of any unusual significant transactions We did not identify any issues to report.
Valuation of pension fund net liability The Chief Constable's pension fund liability as reflected in the balance sheet represent significant estimates in the financial statements.	As part of our audit work we: <ul style="list-style-type: none">• 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• 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• undertook procedures to confirm the reasonableness of the actuarial assumptions made• 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. We were satisfied from our testing of the pension fund net liability that this was fairly stated.

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

Risks identified in our audit plan	How we responded to the risk
<p>Valuation of property, plant and equipment</p> <p>The PCC revalues his 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>Last year we identified that management had not undertaken a review of assets not valued by the external valuer to demonstrate they were not materially misstated.</p> <p>We also identified that the valuer had not provided a split of valuations between land and buildings.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate • reviewed the competence, expertise and objectivity of any management experts used • reviewed the instructions issued to valuation experts and the scope of their work • reviewed management's discussions with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions • reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding. • tested revaluations made during the year to ensure they were input correctly into the PCC's asset register • 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 • ensured the valuer provided a split of valuations between land and buildings. <p>We were satisfied from our testing that property, plant and equipment is materially stated.</p> <p>The Fixed Asset Register was amended to show the appropriate split of land and buildings to agree to the valuers report. The property plant and equipment note also was amended to:</p> <ul style="list-style-type: none"> • show corrections to depreciation charges on revalued assets; and • split out additions to assets under construction between additions and donated assets.
<p>Employee remuneration</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"> • documented our understanding of processes and key controls over the employee remuneration transaction cycle • walked through the key controls to assess the whether those controls were in line with our documented understanding • substantively tested a sample of staff and officer payroll payments, ensuring that payments were made in accordance with the individual's contract of employment • tested the reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems and interfaces • analysed trends to identify any anomalous areas for further investigation • tested to confirm the completeness of payroll transactions and appropriate cut-off <p>We did not identify any issues to report.</p>

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

Risks identified in our audit plan	How we responded to the risk
<p>Operating expenses</p> <p>Creditors understated or not recorded in the correct period (Operating expenses understated)</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the operating expenses transaction cycle • walked through the key controls to assess whether those controls were in line with our documented understanding • tested the reconciliation of operating expenditure recorded in the general ledger to the subsidiary systems and interfaces • tested payments made after the year-end to identify potential unrecorded liabilities and gain assurance over the completeness of the payables balance in the accounts • substantively tested operating expenses including sample testing of expenditure, year end accruals and creditor balances. <p>We did not identify any significant issues to report.</p> <p>We identified an immaterial uncertainty of maximum value £604k in relation to manual accruals (part of creditor balances).</p> <p>A cut off error was identified within manual accruals value £30k. A prior year creditor accrual relating to Warwickshire Commissioner's Grant - National Probation Service was not reversed in 2015/16. Creditors were thus overstated by £30k. Additional testing did not identify any further errors.</p> <p>As we test on a sample basis, there was a remaining untested balance of £574k. Adding this to the value of the error identified of £30k resulted in a maximum uncertainty of £604k. This was the maximum potential uncertainty over the cut off of manual accruals. This is not material or significant.</p> <p>We obtained management representation that they were satisfied that manual accruals are materially fairly stated despite this error.</p>

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

Risks identified in our audit plan	How we responded to the risk
Police Pensions Benefits Payable Benefits improperly computed / Claims liability understated	<p>As part of our audit work we:</p> <ul style="list-style-type: none">• documented our understanding of processes and key controls over the pensions benefits payments transaction cycle• walked through the key controls to assess the whether those controls were in line with our documented understanding• tested the reconciliation of pension benefit payments recorded in the general ledger to the subsidiary systems and interfaces• analysed trends and relationships to identify any anomalous areas for further investigation• substantively tested monthly pension benefit payments made in the year• substantively tested lump sum pension benefit payments made in the year• reviewed data migration to Kier Pension Services. <p>We did not identify any issues to report.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the PCC's and Chief Constable's accounts on 21 September 2016, in advance of the 30 September 2016 national deadline.

The PCC and Chief Constable made the accounts available for audit in line with the agreed timetable, and provided good working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the PCC's and Chief Constable's accounts

We reported the key issues from our audit of the accounts to the PCC and Chief Constable and the Joint Audit Committee on 19 September 2016.

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.

Annual Governance Statement and Narrative Report

We are also required to review the PCC's and Chief Constable's Annual Governance Statement and Narrative Report. These were published on the website with the draft accounts in line with the national deadlines.

Both 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.

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 2015 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.

We reported that, as a result of our initial risk assessment, we had identified the following significant risks requiring further work:

- Estates Strategy and ICT
- Financial Strategy
- People and Partnerships
- HMIC rating the Constabulary as "requiring improvement" in the areas of effectiveness and legitimacy in its State of Policing Report.

We reviewed relevant documents up to the date of giving our report, and did not identify any additional significant risks where we needed to perform further work.

The estates strategy programme in place at the Alliance includes rationalisation of estate across the two constabulary areas and the use of adaptable ICT. There are a number of developments and projects in place to deliver these initiatives which also include elements of partnership working. Overall we were satisfied that governance arrangements are embedded across these projects. Efficiencies are starting to be achieved, though the full impact cannot currently be assessed as projects are either in their early days or have not yet commenced.

The Medium Term Financial Plan runs to 2019/20 and identifies that Warwickshire PCC and Chief Constable Group needs to achieve savings of £6m over that period. It acknowledges that the achievement of the plan will need to be supported by strategies including working with a Strategic Partner (part of 2020 Vision), Project Athena, investment in Estate, making use of expertise at PPL. We were satisfied that there are adequate arrangements in place, such as detailed cost information, challenge of business cases, and robust reporting to ensure the financial strategy is fit for purpose.

The Alliance's 'Looking to 2020' document acknowledges that the Alliance will work in partnership to provide the best service it can. The document sets out collaboration opportunities and demonstrates that the limitations of partnership working such as sharing of confidential information are understood. It is acknowledged that these limitations will need addressing. We identified examples of where the benefits of working in partnership have already been realised.

The Alliance acknowledges the importance of its people in transformational change. The People Strategy for 2015-18 identifies six people priority areas including health and well being. The Health and Well-Being Board is tracking progress being made in response to feedback from the staff survey. Initiatives are having a positive impact as evidenced by the fact that attendance levels have improved as at 31 March 2016. We were satisfied that people issues are being managed appropriately.

Value for Money conclusion

We found that the Alliance has a clear process in place to respond to the outcome of HMIC inspections. In addition to having actions in response to recommendations, there are also actions to respond to Areas for Improvement and other observations in HMIC reports. These actions are owned by the Chief Officer Lead and the business area which is the subject of the inspection. The Action Plans are continually updated and their progress monitored by the Service Improvement Board. Feedback from the Service Improvement Board is a standing item on meetings of the Alliance Executive Board where progress is monitored. Additional scrutiny is achieved by progress being reported to the Joint Audit Committee and direct communication with the Chair of that Committee as appropriate. We reviewed the current version of the Action Plan and were able to confirm that satisfactory progress was being made in implementing HMIC inspection recommendations.

We also identified that there is a desire to improve beyond HMIC inspection findings as demonstrated by the commissioning of a peer review of Stop and Search processes to identify further opportunities for improvement.

Overall VfM conclusion

We are satisfied that in all significant respects that the PCC and Chief Constable put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources for the year ending 31 March 2016.

Working with the Police and Crime Commissioner and Chief Constable

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Working together, we have contributed to:

An efficient audit – we delivered the accounts audit by the 21 September, ahead of the 30 September deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Working together we will achieve closedown in line with the 31 July deadline mandated from 2017/18.

Understanding your operational health – through the value for money conclusion we examined your operational effectiveness. We tracked your estates and ICT strategy, medium term planning arrangements, partnership working, people issues, the Alliance response to HMIC inspection findings and considered this as part of our value for money assessment.

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.

Technical dialogue – we have been involved in early discussions on a number of developments to ensure that appropriate accounting and audit implications are identified

Provided information - we provided regular audit committee updates covering best practice. Areas we covered included e.g. All Aboard - Local Government Governance Review 2015 and Knowing the Ropes – Audit Committee Effectiveness Review.

Supporting development – we ran our national Police Audit Committee conference in April 2016 for Audit Committee members.

Appendix A: Reports issued and fees

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

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of the PCC	31,035	31,035	41,380
Statutory audit of the Chief Constable	15,000	15,000	20,000
Total fees (excluding VAT)	46,035	46,035	61,380

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	14 March 2016
Audit Findings Report	21 September 2016
Annual Audit Letter	October 2016



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