

# Audit Progress Report and Sector Update

Warwickshire and West Mercia Police and Crime Commissioners and Chief Constables  
Year ending 31 March 2018

11 January 2018



# Contents and Introduction

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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you; and
- 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 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. Click on the Grant Thornton logo to be directed to the website.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.



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# Progress at 18 January 2018

## Financial Statements Audit

We have started planning for the 2017/18 financial statements audit and are due to commence our interim audit on 29 January 2018 for one week; with a second interim audit taking place the week commencing 5 March 2018. Our interim fieldwork visit will include:

- Updated review of the control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

We will report any findings from the interim audit to you in our Progress Report at the Audit committee in March 2018 for the end of January work; and at the Audit Committee following completion of our March work..

The final accounts audit is due to begin on the 4 June 2018 with findings reported to you in the Joint Audit Findings Report by the 31 July 2018 deadline.

## Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the PCC and the Chief Constable has each made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

We will begin our initial risk assessment to determine our approach in December 2017.

We will report our work in the Joint Audit Findings Report and give our Value For Money Conclusions by the 31 July 2018 deadline.

## Other areas

### Meetings

We met with The PCCs' Treasurer, and the Chief Constables' Director of Finance on [31 October 2017](#) as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

### Events

Your Head of Accounting Services is attending a meeting on [29 January 2018](#) at our Birmingham Office. He will be joining colleagues from other organisations to compare accounts for further decluttering opportunities; and share what works to achieve earlier closedown.

# Audit Deliverables

2017/18 Deliverables	Planned Date	Status
<b>Fee Letters</b> Confirming audit fees for 2017/18 audits.	April 2017	Complete
<b>Accounts Joint Audit Plan</b> We are required to issue a detailed accounts joint audit plan to the <a href="#">Joint Audit</a> Committee setting out our proposed approach in order to give an opinion on the Group, Police and Crime Commissioner and Chief Constable 2017-18 financial statements.	March 2018	Not yet due
<b>Interim Audit Findings</b> We will report to you the findings from our interim audit within our Progress Report.	March 2018	Not yet due
<b>Joint Audit Findings Report</b> The Joint Audit Findings Report will be reported to the <a href="#">July 2018 Joint Audit</a> Committee.	July 2018	Not yet due
<b>Auditors Reports</b> This is the opinion on the financial statements, annual governance statements and value for money conclusions.	July 2018	Not yet due
<b>Joint Annual Audit Letter</b> This letter communicates the key issues arising from our audit work.	August 2018	Not yet due

# Sector Update

Policing services are rapidly changing. Increased demand from the public and more complex crimes require a continuing drive to achieve greater efficiency in the delivery of police services. Public expectations of the service continue to rise in the wake of recent high-profile incidents, and there is an increased drive for greater collaboration between Forces and wider blue-light services.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider Police service and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from sector specialists**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and police sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Police

# A Manifesto for a Vibrant Economy



## Developing infrastructure to enable local growth

Cities and shire areas need the powers and frameworks to collaborate on strategic issues and be able to raise finance to invest in infrastructure priorities. Devolution needs to continue in England across all places, with governance models not being a “one-size-fits all”. Priorities include broadband, airport capacity in the North and east-west transport links.

Addressing the housing shortage, particularly in London and the Southeast, is a vital part of this. There simply is not enough available land on which to build, and green belt legislation, though designed to allow people living in cities space to breath, has become restrictive and is in need of modernisation. Without further provision to free up more land to build on, the young people that we need to protect the future of our economy will not be able to afford housing, and council spending on housing the homeless will continue to rise.

Business rates are also ripe for review – a property-based tax is no longer an accurate basis for taxing the activity and value of local business, in particular as this source of funding becomes increasingly important to the provision of local authority services with the phasing out of the Government’s block grant.

Demographic and funding pressures mean that the NHS no longer remains sustainable, and the integration of health and social care – recognised as critical by all key decision makers – remains more aspiration than reality.

There is an opportunity for communities to take a more holistic approach to health, for example creating healthier spaces and workplaces and tackling air quality, and to use technology to provide more accessible, cheaper diagnosis and treatment for many routine issues.

## Finding a better way to measure the vibrancy of places

When applied to a place we can see that traditional indicators of prosperity such as GVA, do not tell the full story. To address this we have developed a [Vibrant Economy Index](#) to measure the current and future vibrancy of places. The Index uses the geography of local authority areas and identifies six broad objectives for society: prosperity, dynamism and opportunity, inclusion and equality, health wellbeing and happiness, resilience and sustainability, and community trust and belonging.

The city of Manchester, for example, is associated with dynamic economic success. While our Index confirms this, it also identifies that the Greater Manchester area overall has exceptionally poor health outcomes, generations of low education attainment and deep-rooted joblessness. These factors threaten future prosperity, as success depends on people’s productive participation in the wider local economy, rather than in concentrated pockets.

Every place has its own challenges and opportunities. Understanding what these are, and the dynamic between them, will help unlock everybody’s ability to thrive. Over the coming months we will continue to develop the Vibrant Economy Index through discussions with businesses, citizens and government at a national and local level.

Guy Clifton – Head of Local Government Advisory



# The Board: creating and protecting value



In all sectors, boards are increasingly coming under pressure from both the market and regulators to improve their effectiveness and accountability. This makes business sense given a strong governance culture in the boardroom produces better results, promotes good behaviour within the organisation and drives an organisation's purpose.

Grant Thornton's new report 'The Board: creating and protecting value' is a cross- sector review of board effectiveness, based on a survey of executives and non-executives from a range of organisations including charities, housing associations, universities, local government, private companies and publically listed companies.

It considers the challenges faced by boards, ways in which they can operate more effectively; and how to strike the right balance between value protection and value creation.

This report uses the DLMA analysis which categorises skills into four areas: Directorship, Leadership, Management and Assurance.

This powerful tool provides a framework with which to evaluate how well an organisation is performing in balance of skills and understanding of roles; and responsibilities between the executive and Board. It helps align risk (value protection) and opportunity (value creation) with overarching strategy and purpose.

[Click on the report cover to download and read more](#)

Value creation	
Non-executives	<b>Directorship</b> How well do the non-executives: <ul style="list-style-type: none"> <li>design, debate and decide the organisation's future?</li> <li>inspire and guide the executive to realise the organisation's purpose?</li> <li>provide support to the executives?</li> </ul>
	<b>Leadership</b> How well do the executives: <ul style="list-style-type: none"> <li>Make decisions aligned with realising the organisation's purpose?</li> <li>Inspire and motivate employees to realise the organisation's purpose?</li> <li>model the values of the organisation?</li> </ul>
Executives	<b>Assurance</b> How well do the non-executives: <ul style="list-style-type: none"> <li>monitor financial, compliance and business indicators?</li> <li>ensure appropriate processes are in place to manage risk?</li> <li>have oversight of the executive team?</li> </ul>
	<b>Management</b> How well do the executives: <ul style="list-style-type: none"> <li>set goals, creating plans and allocating resources to achieve them?</li> <li>effectively assign roles and responsibilities?</li> <li>Focus on day-to-day tasks and resources needed to deliver strategic aims?</li> </ul>
Value protection	

Source: The Board: Creating and protecting value, 2017, Grant Thornton



## Grant Thornton Publication

### Challenge question:

Can you use the key questions raised in the report to consider the effectiveness of your own governing body?



# PEEL – Police efficiency 2017



## 'Significantly stressed' police forces need to continue to change

In an environment of increasingly complex crime and changing demand, police forces are generally continuing to manage their resources well, according to the latest report into police efficiency, published by Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services.

These are the third annual efficiency reports to examine how well police forces in England and Wales understand demand, use their resources and plan for the future. Two forces have been graded as 'outstanding', thirty forces as 'good', ten forces as 'requiring improvement' and no force as 'inadequate'. Two more forces than last year have been graded as requiring improvement, although, as was the case last year, the majority of forces have been graded as good. Warwickshire and West Mercia were both rated good.

The report concludes that policing is becoming increasingly complex, both in terms of the types of crimes that the police deal with and the number of different organisations with which they have to work, as forces strive to provide the best service to the public.

Against this backdrop, the report recognises that policing has had to make, and will continue to have to make, very difficult decisions about where to focus its resources. The policing workforce has shrunk over the last few years; in most forces, this has resulted in a better use of resources and a more focused policing model that is more efficient.

The report highlights that every force faces different circumstances in terms of the problems it has to confront and its financial position. The findings from this inspection again show that even when their financial position is particularly difficult, it is possible for forces to gain a positive grade in relation to their efficiency.

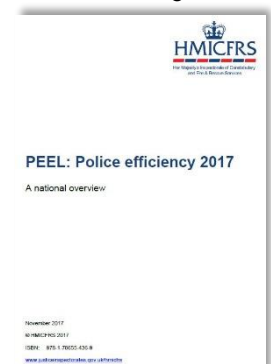
HMICFRS remains concerned that few forces have taken sufficient steps to understand the skills they have, or need, in their workforce. Although more forces have started to improve their understanding of this, most of them still focus on current skills, rather than on the skills they are likely to need in the future. This makes it harder for those forces to plan effectively for skills, according to the report.

More and more forces are using some form of risk-based analysis to inform their allocation of resources, but some remain unable to allocate adequate resources to meet the needs of their demand model. There are many examples of forces using their resources flexibly. However, not many forces have carried out sufficient analysis to be confident of their ability to predict the overall effect of moving resources from one area of operations to another.

This is particularly true within force control rooms, which primarily deal with public 999 or 101 calls. At the time of inspection, some control rooms appeared to be struggling to meet demand, particularly in relation to 101 non-emergency calls. Many forces have found it difficult to retain control room staff and a number of them rely too much on outdated technology. Some forces are considering different ways of managing demand through online tools, although only a small number of high-performing forces can demonstrate the effectiveness of these tools.

The report concludes that while most police forces throughout the country have risen impressively to the challenges they face, policing remains under significant stress. Forces need to be more ambitious and innovative in terms of their plans for the future; the problems facing those forces that fail to do so could potentially prove overwhelming.

[Click on the report cover to read more.](#)



# HMICFRS updates



## A progress report on the police response to domestic abuse

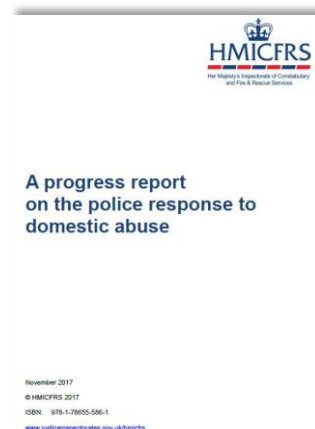
This report is the third in a series of thematic reports which consider the response provided to victims of domestic abuse by the police service. The report finds that since the publication of the first report in March 2014 the service provided by the police to victims of domestic abuse has improved markedly. Victims are now better supported and better protected.

Identifying, protecting and supporting victims of domestic abuse remain vital parts of the policing mission to prevent crime and disorder, but this is not something that the police can tackle alone. The complex and sensitive nature of domestic abuse means that the police often need to work in close co-operation with a range of other agencies.

The 2014 report found significant shortcomings in the policing response to domestic abuse. In 2015, as part of the second inspection in this series, it was found that the police service had come to see tackling domestic abuse as a priority. However, it found that there were still a number of areas for improvement in the way that the police respond to victims of domestic abuse.

The latest report is based upon inspection findings from 2016, and highlights continued improvement.

Click on the report cover to read more.



## Value for money profiles

HMICFRS have published the 2017 value for money profiles which provide comparative data on a wide range of policing activities for each police force in England and Wales.

The value for money (VfM) profiles provide comparative data on a wide range of policing activities. For instance: does your force spend more or less than other similar forces? Does it receive fewer or more 999 calls? How does the crime rate differ from other force areas?

It is important to note that the profiles highlight what these differences are, but not why they exist. There are many reasons why (for instance) a force might spend more on a particular function than other forces, or pay its officers more. Forces and police and crime commissioners can explain these reasons; the VfM profiles aim to help you ask the right questions. We will also use them as part of our value for money conclusion.

The profiles are based on data provided by the police and can be found [here](#).

# Code of Practice on Local Authority Accounting and IFRS 9 and IFRS 15

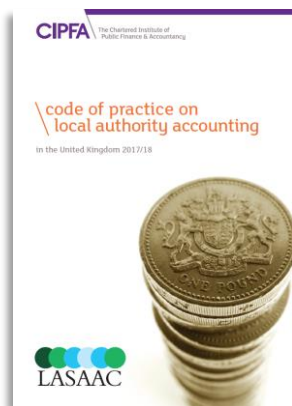
CIPFA/LASAAC has issued the Local Authority Accounting Code for 2017/18 which specifies the principles and practices of accounting required to prepare a Statement of Accounts.

The main changes to the Code include:

- amendments to section 2.2 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 to introduce key reporting principles for the Narrative Report
- updates to section 3.4 covering the presentation of financial statements to clarify the reporting requirements for accounting policies and going concern reporting
- 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)
- amendments to section 6.5 relating to the Accounting and Reporting by Pension Funds, to require a new disclosure of investment management transaction costs and clarification on the approach to investment concentration disclosure.

Alongside the Code, CIPFA has also published Guidance Notes for Practitioners and a Disclosure Checklist for 2017/18 Accounts.

These publications may be obtained from CIPFA and are available [here](#).



CIPFA/LASAAC has issued a companion publication 'Forthcoming provisions for IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers in the Code of Practice on Local Authority Accounting in the United Kingdom 2018'.

Looking further ahead, this sets out the changes to the 2018/19 Code in respect of [IFRS 9 Financial Instruments](#) and [IFRS 15 Revenue from Contracts with Customers](#). It has been issued in advance of the 2018/19 Code to provide local authorities with time to prepare for the changes required under these new standards.

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes a single classification approach for financial assets, a forward looking 'expected loss' model for impairment (rather than the 'incurred loss' model under IAS 39) and some fundamental changes to requirements around hedge accounting.

IFRS 15 establishes a new comprehensive framework for revenue recognition and replaces IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 changes the basis for deciding whether revenue is recognised at a point in time or over a period of time and introduces five steps for revenue recognition.

It should be noted that the publication does not have the authority of the Code and early adoption of the two standards is not permitted by the 2017/18 Code.

An Early Guide for Local Authority Practitioners covering IFRS 9 Financial Instruments is to be published in December 2017.

## CIPFA Publication

### Challenge question:

Are the PCCs' Treasurer and Chief Constables' Director of Finance aware of the changes affecting the preparation of the financial statements for 2017/18 and the forthcoming changes to financial instruments and revenue recognition?



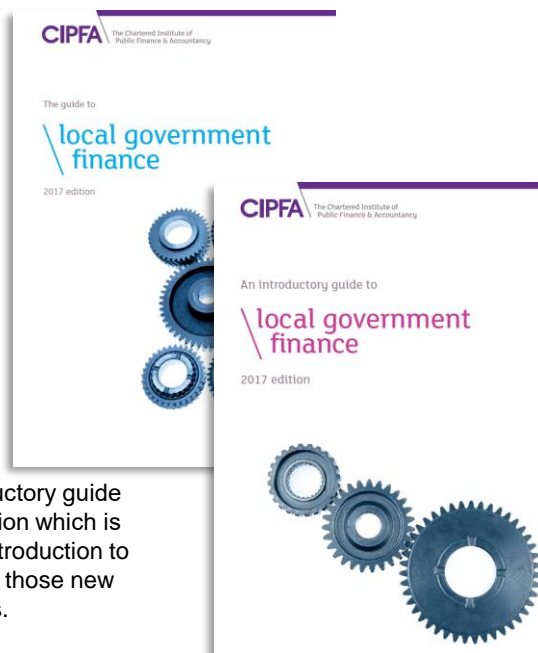
# CIPFA publications

CIPFA have published 'The guide to local government finance' 2017 edition. The guide seeks to provide information on current arrangements for local government finance and sets out the principles of sound financial management.

The guide covers a range of local government services. It examines the funding systems that support those services including council tax, business rates and the local government finance settlement. The guide covers both revenue and capital financing and has separate chapters on key areas and their specific intricacies including:

- capital finance
- budgeting and financial reporting
- treasury management
- auditing
- governance
- education
- housing
- police
- social care.

CIPFA have also published 'An introductory guide to local government finance' 2017 edition which is aimed at those requiring more of an introduction to local government finance for example, those new to the sector or non finance specialists.



CIPFA have updated their guidance on the key considerations in setting up and managing a pooled budget in the publication 'Pooled Budgets and the Better Care Fund: A Practical Guide for Local Authorities and Health Bodies' (2017 Edition)

Although pooled budgets have operated widely across health and social care and other public sector organisations for a long time, they were brought into prominence by the Better Care Fund, introduced in 2015–16.

The aim of CIPFA's guidance is to define the basic principles of financial management, governance and accountability that partners in budget pooling arrangements or, indeed, other forms of partnership working, should follow, and to consider the relevant accounting issues.

The guide provides practical tools such as a checklist of matters to consider, an example of how to decide which agency should lead the arrangement, a model scheme of delegation to boards. The guide considers the background to budget pooling, including the purpose of pooling, the basics of partnership arrangements, and some other options available to health and social care organisations pursuing similar objectives. It goes on to consider specific issues arising from pooling: managing a pooled budget, corporate governance, financial management, audit and assurance, and VAT. These matters then feed into an appendix on accounting issues.

## CIPFA Publication

### Challenge question:

Are these publications of use to you?



# DCLG Consultation

## DCLG are currently consulting with Local Authorities and other interested parties on proposed changes to the prudential framework of capital finance.

The statutory framework for the Prudential System is set out in Chapter I of the Local Government Act 2003 and in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended. The framework includes four statutory codes. Alongside CIPFA's Prudential Code and Treasury Management Code, the DCLG is responsible for Statutory Guidance on both Local Authority Investments and on the Minimum Revenue Provision.

Over the past years the regulatory and economic environment has changed significantly and led the sector to consider more innovative types of investment activity. The government has also monitored changes in the practices used for calculating Minimum Revenue Provision.

As a result the Department for Communities and Local Government is seeking views on proposals to update the guidance on Local Authorities Investments and on Minimum Revenue Provision for full implementation in 2018/19. This consultation closed on 22 December 2017 and may be accessed [here](#).

### Local Authorities Investment Code

The Government recognises that there is great variation in the objectives and nature of local authority investment, including local economic regeneration projects, however it believes that local authorities need to be better at explaining “why” not just “what” they are doing with their investment activity.

That means that the sector needs to demonstrate more transparency and openness and to make it easier for informed observers to understand how good governance and democratic accountability have been exercised.

To this end a number of proposals are made including requiring local authorities to:

- prepare a Capital Strategy which includes clear disclosure of the Investment Strategy
- disclose the contribution that investment activities make to their core functions
- use indicators to assess total risk exposure
- apply the principles of prioritising security and liquidity over yield for investment in non financial assets (in the same way that they are required to do for financial assets)
- disclose their dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income
- disclose additional information where authorities borrow to invest in revenue generating investments
- Disclose steps to ensure expertise of key officer and councillors involved in the decision making process.

### Minimum Revenue Provision Guidance

Local authorities are normally required each year to set aside some of their revenues as provision for debt. More precisely, the provision is in respect of capital expenditure financed by borrowing or long term credit arrangements. Given the changes in current practice and recent interest, the Government feels that it is time to look into updating the guidance as part of the more general update of the statutory codes comprising the prudential system. Four proposals are made:

- change to the definition of the basis of MRP
- confirmation that a charge to the revenue account cannot be a credit
- confirmation that a change to the MRP methodology would not generate an overpayment of MRP calculated retrospectively
- Introduces maximum useful economic lives for MRP calculations based on asset life

### DCLG consultation

#### Challenge question:

- Did the PCCs' Treasurer and the Chief Constables' Director of Finance respond to the consultation?



# Overview of General Data Protection Regulation (GDPR)

## What is it?

GDPR is the most significant regulatory data protection development in 20 years. It introduces new rights for individuals and new obligations for public and private sector organisations.

## What's next?

Many public sector organisations have already developed strategic plans to implement the GDPR, which require policy, operational, governance and technology changes to ensure compliance by 25<sup>th</sup> May 2018.

### How will this affect you?

- ✓ All organisations that process personal data will be affected by the GDPR.
- ✓ The definition of 'personal data' has been clarified to include any data that might reasonably be used to identify a living individual, either directly or indirectly. Various unique identifiers (including online cookies and IP addresses) will likely fall within the scope of personal data

### What organisations need to do by May 2018

- ✓ Local authority organisations need to be able to provide evidence of completion of their GDPR work to internal and external stakeholders, to internal audit and to regulators.
- ✓ New policies and procedures need to be fully signed off and operational.

## Organisation Accountability

- Organisations must document their assurance procedures, and make them available to regulators
- Organisations need to designate a Data Protection Officer, who has expert knowledge of data protection law

## Notifications and Rights

- Organisations must notify relevant incidents to regulators within 72 hours
- Organisations must explain to individuals what their rights over their personal information are and how it is being processed and protected

## Claims and Fines

- Privacy regulators can impose penalties of up to €1 million on public sector organisations, for the most serious violations
- Individuals and representative organisations may be able to seek compensation for infringements of data protection rights

## GDPR

### Challenge question:

Can the PCCs and Chief Constables effectively erase Personally Identifiable Data?

Have you appointed a Data Protection Officer?

How will your authority ensure citizens' data isn't duplicated across different information siloes without their knowledge?

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.

