

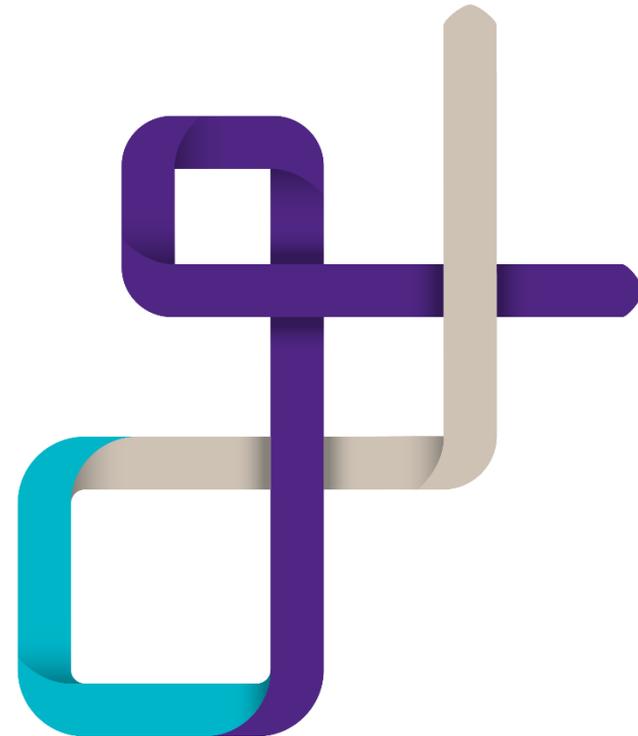
# Joint Audit Findings

*Year ending 31 March 2018*

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Police and Crime Commissioner for West Mercia  
Chief Constable for West Mercia

30 July 2018



# Contents



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Headlines

This table summarises the key issues arising from the statutory audits of West Mercia Police and Crime Commissioner ('the PCC') and West Mercia Chief Constable and the preparation of the PCC and Chief Constable's financial statements for the year ended 31 March 2018 for those charged with governance.

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## Financial Statements

Under International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:

- the group, PCC's and Chief Constable's financial statements give a true and fair view of the group's, PCC's and Chief Constable's financial position and of the group, PCC's and Chief Constable's expenditure and income for the year, and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Statements of Accounts, Annual Governance Statements (AGS) and Narrative Reports), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed on site during June and July. The Financial Statements were again prepared to a good standard.

We have not identified any adjustments affecting the Group, PCC, and Chief Constable's reported financial position. We did identify a small number of disclosure errors and requested some adjustments to improve presentation of the financial statements. These changes were agreed and have been made in the final version of the financial statements. Those of note are detailed in Appendix A. Our follow up of recommendations from the prior year's audits are detailed in Appendix B.

Subject to outstanding queries being resolved, we anticipate providing unqualified audit opinions in respect of the PCC's financial statements, including the group financial statements, which consolidate the financial activities of the Chief Constable. We also anticipate providing an unqualified opinion in respect of the Chief Constable's financial statements. These outstanding items include:

- Completion of our subsequent events review
- Completion of limited WGA procedures reflecting the PCC Group is below the threshold that would trigger full procedures
- receipt of management representation; and
- review of the final set of financial statements.

We have concluded that the other information published with the financial statements, which includes the Annual Governance Statements and Narrative Reports are consistent our knowledge of your organisation and with the financial statements we have audited.

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## Value for Money arrangements

**Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:**

- **the PCC and Chief Constable have each made proper arrangements to secure economy, efficiency and effectiveness in their use of resources ('the value for money (VFM) conclusion')**

We have completed our risk based review of the PCC and Chief Constable's value for money arrangements. We have concluded that West Mercia PCC and Chief Constable each have proper arrangements to secure economy, efficiency and effectiveness in their use of resources

We therefore anticipate issuing an unqualified value for money conclusion to both entities, as detailed in the separate papers presented to the Joint Audit Committee.. Our findings are summarised on pages 18 to 20.

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# Headlines

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## Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- certify the closure of the audits

We have not exercised any of our additional statutory powers or duties.

We have completed the majority of work under the Code and expect to be able to certify the completion of the audits when we give our audit opinions.

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## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audits.

# Summary

## Overview of the scope of our audit

This Joint Audit Findings presents the observations arising from the audits that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audits, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on both sets of financial statements that have been prepared by management with the oversight of those charged with governance. The audits of the financial statements do not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Audit approach

Our audit approach was based on a thorough understanding of the PCC's and Chief Constable's business and is risk based, and in particular included:

- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of total group assets and revenues to assess the significance of the component and to determine the planned audit response.

- Full scope audits of both the PCC and Chief Constable financial statements
- An evaluation of the PCC's and Chief Constable's internal controls environment including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

## Conclusion

We have substantially completed our audits of your financial statements and subject to outstanding queries being resolved, we anticipate issuing a unqualified audit opinion in respect of the PCC's financial statements, including the group financial statements, which consolidate the financial activities of the Chief Constable. We also anticipate providing a unqualified opinions in respect of the Chief Constable's financial statements. These outstanding items include:

- receipt of management representation letter; and
- review of the final set of financial statements.

Further detail is provided on page 3.

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Our assessment of the value of materiality has been adjusted to reflect increased expenditure in the 2017/18 draft accounts. We detail in the table below our assessment of materiality for each of West Mercia PCC and Chief Constable.

	Group Amount (£)	PCC and Chief Constable Amount (£)	Qualitative factors considered
Materiality for the financial statements	5,206,000	4,817,000 5,011,000	Previous financial performance of the Force
Performance materiality	3,904,000	3,613,000 3,758,000	Previous quality of the working papers and the response to audit process. Quality of financial systems and processes and the nature of the Force's expenditure and income streams.
Trivial matters	260,000	241,000 251,000	
Materiality for specific transactions, balances or disclosures	100,000	100,000	Materiality has been reduced for remuneration disclosures to £100,000 due to its sensitive nature and public interest.

# Significant audit risks

Risks identified in our Audit Plan	Relevant to PCC or Chief Constable?	Commentary
<p><b>1 Improper revenue recognition</b></p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	Both	<p><b>Auditor commentary</b></p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at West Mercia PCC, we have determined that the risk of fraud arising from revenue recognition can be rebutted because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including West Mercia PCC, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore we do not consider this to be a significant risk for West Mercia PCC.</p> <p>For the Chief Constable, revenue is recognised to fund costs and liabilities relating to resources consumed in the direction and control of day-to-day policing. This is shown in the Chief Constable's financial statements as a transfer of resources from the PCC to the Chief Constable for the cost of policing services. Income for the Chief Constable is received entirely from the PCC.</p> <p>Therefore we have determined that the risk of fraud arising from revenue recognition is not a significant risk for West Mercia Chief Constable.</p>
<p><b>2 Management override of controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The PCC and Chief Constable faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p>	Both	<p><b>Auditor commentary</b></p> <p>We have:</p> <ul style="list-style-type: none"> <li>• reviewed accounting estimates, judgments and decisions made by management</li> <li>• reviewed the journal entry process and selected unusual journal entries for testing back to supporting documentation</li> <li>• reviewed unusual significant transactions.</li> </ul> <p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

# Significant audit risks

	Risks identified in our Audit Plan	Relevant to PCC or Chief Constable?	Commentary
3	<p><b>Valuation of property, plant and equipment</b></p> <p>The PCC revalues its land and buildings on a rolling basis over a five year period to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	PCC	<p><b>Auditor commentary</b></p> <p>We have:</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 for 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>We are satisfied that the valuation of property is materially fairly stated in the accounts (£55 million). We are also satisfied that the estimate was derived based on appropriate information.</p>

## Significant audit risks (continued)

Risks identified in our Audit Plan	Relevant to PCC or Chief Constable?	Commentary
<p><b>4 Valuation of pension fund net liability</b></p> <p>The Local Government Pension Scheme (LGPS) pension net liability, the Police Officer Pension schemes fund liability and associated disclosure notes in the financial statements, represent significant estimates in the financial statements.</p> <p>These estimates by their nature are subject to significant estimation uncertainty, being very sensitive to small adjustments in the assumptions used.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	Both	<p><b>Auditor commentary</b></p> <p>We have:</p> <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 actuaries who carried out your pension fund valuations. We gained an understanding of the basis on which the valuation is carried out</li> <li>• undertaken 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 actuaries.</li> </ul> <p>Our audit work has not identified any issues in relation to the valuation of your pension fund liability.</p>

# Reasonably possible audit risks

Risks identified in our Audit Plan	Relevant to PCC or Chief Constable?	Commentary
<p><b>7 Employee remuneration</b> Payroll expenditure represents a significant percentage (52%) of the Chief Constable's (and therefore the group's operating expenses).</p> <p>As the payroll expenditure comes from a number of individual transactions there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention</p>	Both	<p><b>Auditor commentary</b></p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>review the reconciliation of the payroll system to the general ledger and to the financial statements to agree completeness of costs</li> <li>performed a trend analysis and detailed substantive testing of pay costs to ensure employee remuneration costs were accurate and complete.</li> </ul> <p>Our audit work has not identified any issues in respect of employee remuneration.</p>
<p><b>8 Operating expenses</b> Non-pay expenses on other goods and services also represents a significant percentage (15%) of the Chief Constable's (and therefore the group's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non- pay expenses as a risk requiring particular audit attention:</p>	Both	<p><b>Auditor commentary</b></p> <ul style="list-style-type: none"> <li>documented the processes and controls in place around the accounting for operating expenses and undertaken a walkthrough test to confirm operation of these controls.</li> <li>undertaken 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 for unrecorded liabilities by reviewing payments after year-end</li> <li>tested a sample of operating expenses covering the financial year to ensure they have been accurately accounted for</li> <li>tested a sample of creditor balances at 31/3/2018.</li> </ul> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

## Reasonably possible audit risks (continued)

Risks identified in our Audit Plan	Relevant to PCC or Chief Constable?	Commentary
<p><b>9 Police pension schemes benefits payable</b></p> <p>The Chief Constable administers three police pension schemes, with the Police Pension Fund Account being included in the Chief Constable's and therefore the group's financial statements.</p> <p>We identified completeness and accuracy of pension benefits payable as a risk requiring particular audit attention.</p>	Chief Constable (and group)	<p><b>Auditor commentary</b></p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• tested the reconciliation of pension benefit payments recorded in the general ledger to the subsidiary systems and interfaces</li> <li>• performed substantive testing of pension benefit payments made in the year, both monthly payments, and lump sums</li> </ul> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

# Accounting policies

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<p><b>PCC</b></p> <p>The PCC has two principal revenue streams:</p> <ul style="list-style-type: none"> <li>grant income is recognised in accordance with the terms of the grant, whether specific or non-specific; and</li> <li>income from fees/charges in the provision of services, which is recognised when the service has been provided or when title to goods has passed.</li> </ul> <p>All income is accounted for by the PCC and paid into the Police Fund.</p> <p><b>Chief Constable</b></p> <ul style="list-style-type: none"> <li>Police fund income is not recognised as it is under the control of the Commissioner. The Commissioner reimburses the Chief Constable the cost of day to day operational policing but there is no other revenue income relating to the cost services.</li> </ul>	<p><b>PCC audit</b></p> <ul style="list-style-type: none"> <li>We have reviewed the policy against the requirements of the Code and are satisfied that the policy is appropriate and adequate disclosures have been made in the financial statements.</li> </ul> <p><b>Chief Constable</b></p> <ul style="list-style-type: none"> <li>We are satisfied that this policy is appropriate for the Chief Constable and that adequate disclosures have been made in the financial statements.</li> </ul>	
<b>Intra-group funding arrangements and cost recognition</b>	<p><b>PCC</b></p> <ul style="list-style-type: none"> <li>The PCC accounts include an appropriate policy on intra-group funding arrangements and cost recognition</li> </ul> <p><b>Chief Constable</b></p> <ul style="list-style-type: none"> <li>The Chief Constable's accounts include an appropriate policy on intra-group funding arrangements and cost recognition</li> </ul>	<p><b>PCC audit</b></p> <p>We have reviewed the policy against the requirements of the Code and are satisfied the policy is appropriate to the PCC's circumstances and that adequate disclosures have been made in the financial statements. We are also satisfied that the policy reflects the arrangements for the PCC to fund the Chief Constable's operations and that this does form the basis of the intra-group adjustment.</p> <p><b>Chief Constable audit</b></p> <p>We have the same comment as per the PCC audit, and are satisfied it is appropriate to the Chief Constable's circumstances.</p>	

## Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

# Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Cost recognition	<p data-bbox="445 261 499 287"><b>PCC</b></p> <ul data-bbox="445 301 1025 572" style="list-style-type: none"> <li data-bbox="445 301 1025 329">• Expenditure is recognised on an accruals basis.</li> <li data-bbox="445 337 1025 422">• PCC expenditure includes the cost of policing provided by the Chief Constable; this cost is recognised as intra-group funding.</li> <li data-bbox="445 429 1025 572">• The cost of overhead and support services are charged to each segment (policing services and PCC) that is responsible for the support service services and that directly monitors and manages that service.</li> </ul> <p data-bbox="445 586 629 612"><b>Chief Constable</b></p> <ul data-bbox="445 626 1025 1158" style="list-style-type: none"> <li data-bbox="445 626 1025 684">• Expenditure is recognised on an accruals basis in the financial statements.</li> <li data-bbox="445 691 1025 1033">• The Chief Constable's Accounts show the cost of undertaking day to day operational policing under the direction and control of the Chief Constable. Expenditure shown in the CIES include the salaries of police officers, PCSOs and police staff as well as the cost of purchases. In addition, a charge is shown for the Chief Constable's use of assets, which are strategically controlled by the PCC. The capital charge is equal to depreciation of property, plant and equipment and amortisation of intangible assets plus any charge for impairment through obsolescence or physical damage</li> <li data-bbox="445 1041 1025 1158">• The cost of post employment benefits accrued by serving and ex-police officers and police staff and the cost of accrued absences is also shown in the Chief Constable's Accounts.</li> </ul>	<p data-bbox="1058 261 1172 287"><b>PCC audit</b></p> <ul data-bbox="1058 301 1783 479" style="list-style-type: none"> <li data-bbox="1058 301 1783 379">• We are satisfied that expenditure recognition policies are appropriate and result in materially accurate recognition of costs in PCC's financial statements and those of the Group.</li> <li data-bbox="1058 386 1783 479">• We are also satisfied that the policy reflects the arrangements for the PCC to fund the Chief Constable's operations and that this does form the basis of the intra-group adjustment.</li> </ul> <p data-bbox="1058 565 1307 591"><b>Chief Constable audit</b></p> <ul data-bbox="1058 605 1783 758" style="list-style-type: none"> <li data-bbox="1058 605 1783 684">• We are satisfied that expenditure recognition policies are appropriate and result in materially accurate recognition of costs in the Chief Constables financial statements.</li> <li data-bbox="1058 691 1783 758">• We have sought representations from Management to confirm that the total value of covert expenditure is not material.</li> </ul>	

## Assessment

- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

# Accounting policies

Accounting area	Summary of policy	Comments	Assessment
<b>Accounting arrangements for the Alliance</b>	<p><b>PCC and Chief Constable</b></p> <ul style="list-style-type: none"> <li>Strategic alliance costs are allocated based on the cost sharing model set out in the Section 23 Agreement. This includes a fundamental judgement that the costs and benefits relating to the alliance are apportioned 69% to West Mercia and 31% to West Mercia.</li> <li>The split has been arrived at by looking at various indicators and will be reviewed at an appropriate interval.</li> </ul>	<p><b>PCC and CC audit</b></p> <ul style="list-style-type: none"> <li>We did not raise concerns over the cost sharing model. Given the materiality of the alliance expenditure we would expect management to consider annually whether the cost sharing model remains valid. We have requested management representation to support this critical judgement.</li> </ul>	
<b>Other accounting policies</b>	<p><b>PCC and Chief Constable</b></p> <ul style="list-style-type: none"> <li>We have reviewed the Police and Crime Commissioner's and the Chief Constable's policies against the requirements of the CIPFA Code and accounting standards.</li> </ul>	<p><b>PCC and CC audit</b></p> <ul style="list-style-type: none"> <li>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention</li> </ul>	

## Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

# Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Estimates and judgements – pension fund liability	<p data-bbox="530 262 940 315"><b>Local Government Pension Scheme (LGPS) for PCC staff and CC staff</b></p> <p data-bbox="530 329 1023 582">The LGPS is the pension scheme for PCC and police staff. This is a funded defined benefit scheme. The scheme is administered by Worcestershire County Council Pension Fund. The liability showing the underlying long term commitment to fund future retirement benefits is shown on the relevant PCC and CC balance sheet with a corresponding Pension Reserve.</p> <p data-bbox="530 636 700 662"><b>Police Officers</b></p> <p data-bbox="530 676 1023 843">The Chief Constable operates three pension schemes for police officers. The Police Pension Scheme 1987 (OPPS), the New Police Pension Scheme 2006 (NPPS), and the Police Pension Scheme 2015 (PPS); all of which are unfunded, defined benefit schemes.</p> <p data-bbox="530 858 1023 1025">The financial liability for these schemes appears on the Chief Constable's Balance Sheet with a corresponding Pension Reserve. Changes in actuarial assumptions led to a £23m increase in the size of the liability, which now stands at £2,510 m at 31 March 2018</p>	<p data-bbox="1058 262 1265 288"><b>PCC and CC audit</b></p> <p data-bbox="1058 302 1769 469">For LGPS and the three police officer pension schemes we undertook a review of the relevant actuary's (Mercer for LGPS and GAD for police schemes) work to satisfy ourselves that the pension liabilities are fairly stated in the financial statements. In doing so we engaged our own independent actuary to assess the methodology and assumptions used by the scheme's actuary.</p> <p data-bbox="1058 484 1790 622">For LGPS we have confirmed with the LGPS external auditor that the controls over membership data were operating as intended. For the three police schemes we have reviewed the information sent to the actuary ourselves and confirmed it was consistent with our expectations.</p> <p data-bbox="1058 636 1728 691">The pension fund liabilities are most sensitive to changes in the following key assumptions:</p> <ul data-bbox="1058 705 1342 843" style="list-style-type: none"> <li>• discount rate;</li> <li>• mortality;</li> <li>• inflation; and</li> <li>• future salary increases.</li> </ul> <p data-bbox="1058 876 1790 1041">For both LGPS and the police officer pension schemes we have reviewed the assumptions used for each of these variables. Our own independent actuary has also confirmed that they are comfortable that the assumptions used by both Mercer and GAD are reasonable for the purpose of valuing the pension fund liabilities as at 31 March 2018.</p>	

## Assessment

- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

# Accounting policies

Accounting area	Summary of policy	Comments	Assessment
<b>Estimates and judgments – land and building valuations</b>	<ul style="list-style-type: none"> <li>The CIPFA Code requires that authorities revalue their land and building assets on a regular basis. The PCC engages an independent chartered surveyor via PPL Ltd to provide land and building valuations for financial reporting purposes.</li> <li>The accounting policy states "Assets included in the Balance Sheet at fair value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end, but as a minimum every five years"</li> <li>Management has reviewed the carrying value for assets which the valuer had not provided a valuation</li> <li>The land and buildings valuations were split on the valuation provided by the valuer.</li> </ul>	<p>We undertook a detailed review of the work performed by the PCC's Valuer to provide land and building valuations for financial reporting purposes.</p> <p>We were satisfied from our review of the valuation report, that the methods and assumptions used by the Valuer in valuing the PCC's land and property assets are considered to be reasonable and in accordance with the requirements of IFRS and the Code.</p>	

## Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

# Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
① <b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Joint Audit Committee.</li> <li>We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
② <b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related parties or related party transactions which have not been disclosed</li> </ul>
③ <b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
④ <b>Written representations</b>	<p>A letter of representation has been requested from the PCC and the Chief Constable. Specific representations will be requested from management in respect of:</p> <ul style="list-style-type: none"> <li>The alliance finance model sharing costs (West Mercia 31% and West Mercia 69%);</li> <li>Property valuations being materially fairly stated; and</li> <li>Expenditure on covert operations in the Chief Constable's accounts is not material.</li> </ul>
⑤ <b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We obtained direct confirmations from the following third-party organisations to support balances reported in the financial statements:             <ul style="list-style-type: none"> <li>Lloyds (in respect of cash held at bank)</li> <li>The Public Works Loan Board (in respect of long-term borrowings)</li> <li>Various counter parties (in respect of cash equivalent and short term investment balances)</li> </ul> </li> </ul>
⑥ <b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>

## Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

Issue	Commentary
<b>1 Other information</b>	<ul style="list-style-type: none"> <li>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statements of Accounts, Annual Governance Statements (AGS) and Narrative Reports), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</li> </ul> <p>No inconsistencies have been identified. We plan to issue unqualified opinions in this respect as detailed in detailed in the separate papers presented to the Joint Audit Committee.</p>
<b>2 Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>If the Annual Governance Statements do not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or are misleading or inconsistent with the other information of which we are aware from our audit</li> <li>If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters</p>
<b>3 Specified procedures for Whole of Government Accounts</b>	<p>We are not required to carry out the specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions as the PCC Group does not exceed the £500m threshold.</p>
<b>4 Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2017/18 audits of West Mercia PCC and West Mercia Chief Constable in the audit opinions, as detailed in the separate papers presented to the Joint Audit Committee.</p>

# Value for Money

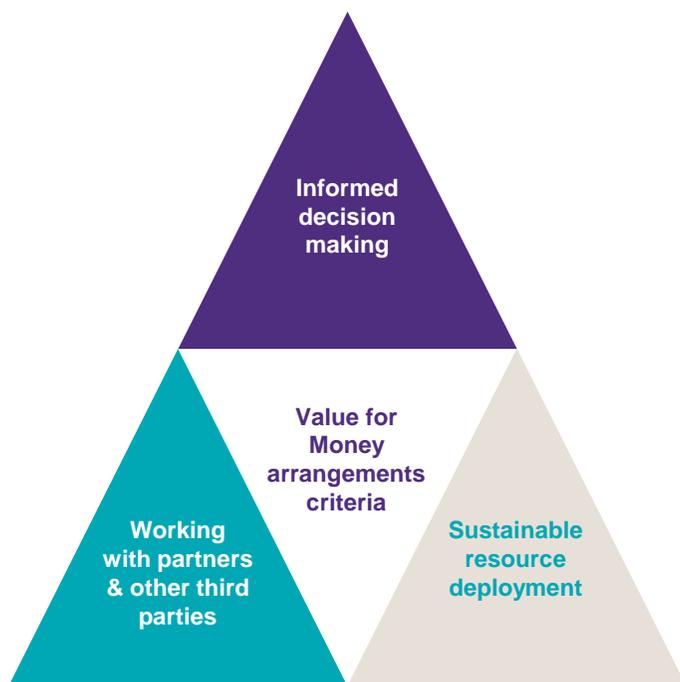
## Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for police bodies, auditors are required to give a conclusion on whether each of the PCC and Chief Constable has proper arrangements in place.

The guidance identifies one single 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.”*

This is supported by three sub-criteria, as set out below:



## Risk assessment

We carried out an initial risk assessment in February 2018, updated on 22 March 2018 (publication of HMICFRS' PEEL Effectiveness inspection grading and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan presented in March 2018.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

# Value for Money

## **Our work**

AGN 03 requires us to disclose our views on significant qualitative aspects of each of the PCC and Chief Constable's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in each of the PCC and Chief Constable's arrangements. In arriving at our conclusion, our main considerations were:

- how the Force continues to implement and monitor delivery of plans to address the findings of HMICFRS – including PCC overview.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on page 20.

## **Overall conclusion**

Based on the work we performed to address the significant risk, we concluded that:

- Individually, the PCC and Chief Constable each had proper arrangements in all significant respects to ensure they delivered value for money in their use of resources.

The text of our report, which confirms this can be found in the separate papers presented to the Joint Audit Committee..

## **Significant difficulties in undertaking our work**

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

## **Significant matters discussed with management**

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

## Key findings

We set out below our key findings against the significant risk we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Relevant to PCC or Chief Constable?	Findings	Conclusion
<p><b>1</b> HMICFRS' PEEL inspection 2017 rated West Mercia as "requiring improvement" in the areas of legitimacy and effectiveness</p> <p>Work is ongoing to address the findings of this and previous HMICFRS inspections. And progress in delivering improvements is regularly reported to the Alliance Governance Group, the Executive Board and the Joint Audit Committee.</p> <p>Momentum needs to continue in the area to address HMICFRS concerns and to demonstrate improvements.</p>	<ul style="list-style-type: none"> <li>Both (How the Force continues to implement and monitor delivery of plans to address the findings of HMICFRS; and PCC oversight)</li> </ul>	<ul style="list-style-type: none"> <li>The Force has strengthened its governance arrangements to increase the momentum to respond to inspection findings</li> <li>This year, Core Groups were established for each of the inspectorate's PEEL pillars. The Effectiveness Group is chaired by the Alliance Assistant Chief Constable – Protective Services; the Legitimacy Core Group is chaired by the Alliance Assistant Chief Constable – Local Policing; and the Efficiency Core Group is chaired by the Alliance Director of Enabling Services.</li> <li>We observed a Core Group meeting for Effectiveness and for Legitimacy. These were attended by relevant police officers and staff, along with representatives from the PCC's office.</li> <li>The meetings considered in detail the Core Group Action Plan progress to date. This document sets out key actions assigning responsible owner, action start date, target completion date, update/progress report detail, date of last update, and a RAG rating. We observed that each action is subject to scrutiny and challenge. In particular, considering the reality of delivery by the indicated target dates given demands on the Alliance to deliver policing services aligned with the overarching transformational projects in place.</li> <li>In addition to focussing on the Areas for Improvement, ensuring the Alliance can evidence what has changed and how it makes a positive difference, the focus is also on where the Alliance wants to be – at least rated as good.</li> <li>Scrutiny of progress continues to be monitored by the Alliance Governance Group, Executive Board and the Joint Audit Committee.</li> </ul>	<p><b>Auditor view</b></p> <ul style="list-style-type: none"> <li>We are satisfied the Chief Constable with oversight from the PCC continues the momentum to address HMICFRS inspection findings and as such are satisfied that each has proper arrangements in place to secure value for money.</li> <li><b>Management response</b></li> <li>The HMICFRS core groups have provided a solid platform from which to track activity against the areas identified for improvement, but also to implement forward facing activity to drive wider service improvement.</li> <li>In preparation for the new HMICFRS Integrated PEEL Assessment Framework, Warwickshire Police has established a Service Improvement Team to provide assurance that activity has been delivered, embedded and reality tested, prior to the next inspection in March 2019.</li> </ul>

# Independence and ethics

## **Independence and ethics**

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

## **Audit and Non-audit services**

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to each of the PCC and Chief Constable. No non-audit services were identified.

# Action plan

We have identified one recommendation as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1	●	<ul style="list-style-type: none"> <li>A large number of general ledger journals did not contain any narrative in the journal header, although narrative was recorded against each journal line.</li> </ul>	<ul style="list-style-type: none"> <li>Record narrative descriptions in the header field when raising journals.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>Agreed. The Acting Head of Accounting Services will instruct the Finance team to enter narrative in the journal header field when raising journals</li> </ul>
2	●	<ul style="list-style-type: none"> <li>ICT Information Security Policies– The Information Assurance Policy has not been reviewed since 2015 and was last due for review in June 2017 which has not yet occurred.</li> <li>The Passcode Management Procedure has also not been reviewed since June 2015. We would expect such a policy to be reviewed at on an annual basis.</li> </ul> <p>Given the length of time passed since review of these key documents there are risks that security controls operating within the Force are not kept up to date or effective.</p> <p>In addition, users are not kept informed of any new emerging security threats / risks or the desired security practices and procedures to address these.</p>	<ul style="list-style-type: none"> <li>Management should review both the Information Assurance Policy and the Passcode Management Procedure for adequacy, update these as appropriate and approve these for distribution.</li> <li>We would recommend that such policies should be reviewed on an annual basis.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>ICT document reviews will take place by 31/6/18. Annual review process is part of the review cycle which will be adhered to</li> </ul>
3	●	<ul style="list-style-type: none"> <li>ICT – Password Policy - It was noted that staff using eFinancials would be able to reuse their passwords 10 times. Although the expiry length is set to 90 days this control could potentially not work as the user could reuse the same password.</li> <li>The Passcode Management Procedure does not have any specification as to how often passwords should be changed in Active Directory. It was found within the procedure that there is currently no length specification in place. Passwords may be written down and dictionaries to prevent use of common words are not in place.</li> <li>The risk of having weak password controls increases the chance of being compromised through password guessing or cracking.</li> </ul>	<ul style="list-style-type: none"> <li>Management should review the current eFinancials and Active Directory password controls regarding the ability to re-use passwords.</li> <li>All password controls should be reflected in the Passcode Management Procedure, including the password length.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>ICT document will be reviewed by 30/6/18 and feedback collated in response to the feedback.</li> <li>Current position - when changing passwords, the system will not let you reuse the last 10 passwords. Passwords expire after 30 days except in CP &amp; FPM which are set to 90 days. Minimum password length is set to 6 for eFinancials. These rules have been in place since April 2014</li> </ul>

## Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

# Action plan (continued)

	Assessment	Issue and risk	Recommendations
4	●	<ul style="list-style-type: none"> <li>ICT – Generic Accounts - There are four accounts with administrator privileges created within the eFinancials system.</li> <li>Whilst three of these accounts are attributable to individual members, one account 'Buyer' is a generic account, use of which will not be attributable to an individual user.</li> <li>Generic accounts violate the principle of accountability, where all actions performed in a system can be linked to a named individual.</li> <li>This increases the risk that in the event of an error occurring, either by accident or design it cannot be traced to an individual to enable corrective actions to be taken.</li> </ul>	<ul style="list-style-type: none"> <li>Management should review the use of the 'Buyer' generic account and re-allocate it to a named individual to ensure that actions can be traced back to the individual concerned.</li> <li>Ideally, generic accounts should be suspended or where this is not possible, the password should not be made available to more than one person.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>Buyer is a system based account inherent in the ABS product as purchased, it is set up by eFin for Procurement. This account was already created within the system when we first logged in. Audit logs show this account has never been used and they are monitored. We do not know the password for this account and would have to approach Advanced for them to tell us what it is. We could try to suspend the account, but we do not know what ramifications this would have on day to day operations and have not attempted this due to the account not being used and closely monitored.</li> </ul>
5	●	<ul style="list-style-type: none"> <li>ICT User Access Reviews– User access reviews were not being performed for the network (Active Directory)</li> <li>This poses the following risks:               <ol style="list-style-type: none"> <li>Gaps in user administration processes and controls may not be identified and dealt with in a timely manner.</li> <li>Access to information resources and system functionality may not be restricted on the basis of legitimate business need.</li> <li>Enabled, no-longer-needed user accounts may be misused by valid system users to circumvent internal controls.</li> <li>No-longer-needed permissions granted to end-users may lead to segregation of duties conflicts.</li> <li>Access privileges may become disproportionate with respect to end users' job duties.</li> </ol> </li> </ul>	<ul style="list-style-type: none"> <li>It is our experience that access privileges tend to accumulate over time. As such, there is a need for management to perform periodic, formal reviews of the user accounts and permissions within eFinancials and Active Directory. These reviews should take place at a pre-defined, risk-based frequency (annually at a minimum) and should create an audit trail such that a third-party could determine when the reviews were performed, who was involved, and what access changed as a result.</li> <li>These reviews should evaluate both the necessity of existing user ID's as well as the appropriateness of user-to-group assignments (with consideration being given to adequate segregation of duties).</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>ICT are currently reviewing our current process for managing AD accounts through each of the stages be it joiners, leavers or for accounts that haven't been used for X amount of time. At the current position we tend to archive to meet security needs but to avoid any user downtime if any HR feeds haven't come through. Review will be complete by 30/6/18</li> </ul>

## Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

# Action plan (continued)

	Assessment	Issue and risk	Recommendations
6		<ul style="list-style-type: none"> <li>ICT – Configuration Changes- Configuration changes made directly to eFinancials are currently not logged centrally, though they are discussed informally between the system team members. In addition, these are not approved.</li> <li>If incorrect configuration changes are applied to eFinancials this could lead to unintended system disruption.</li> </ul>	<ul style="list-style-type: none"> <li>Management should ensure that configuration changes should be logged in case of resulting errors in the system so a record can be found to understand the nature of the configuration change and quickly apply a remedy.</li> <li>Approval from a fellow team member should also be sought.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>A log will be created to monitor configuration changes</li> </ul>

## Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

# Follow up of prior year recommendations

We identified the following issues in the audits of West Mercia PCC's and West Mercia Chief Constable's 2016/17 financial statements, which resulted in two recommendations being reported in our 2016/17 Joint Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

	Assessment	Issue and risk previously communicated	Relevant to PCC or Chief Constable?	Update on actions taken to address the issue
1	✓	<ul style="list-style-type: none"> <li>The general ledger should contain a code to record the value of short term borrowings</li> </ul>	PCC	Complete
2	✓	<ul style="list-style-type: none"> <li>Management should process the desktop revaluations in the fixed asset register during 2018.</li> </ul>	PCC	Complete

#### Assessment

- ✓ Action completed
- X Not yet addressed

# Audit Adjustments - PCC

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
	Note 19 Leases	Note 19 was updated to correct the number of properties occupied on an operating lease basis from 36 to 26.	✓
	Various	A small number of amendments were made to correct typos, cross-references or to further enhance presentation.	✓

# Fees

We confirm below our final fees charged for the audit.

## Audit Fees

	Proposed fee	Final fee
<b>Police and Crime Commissioner Audit</b>	£34,260	£34,260
<b>Chief Constable Audit</b>	£18,750	£18,750
<b>Total audit fees (excluding VAT)</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).

## Non Audit Fees

No non-audit or audited related services have been undertaken for either the PCC or Chief Constable.



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