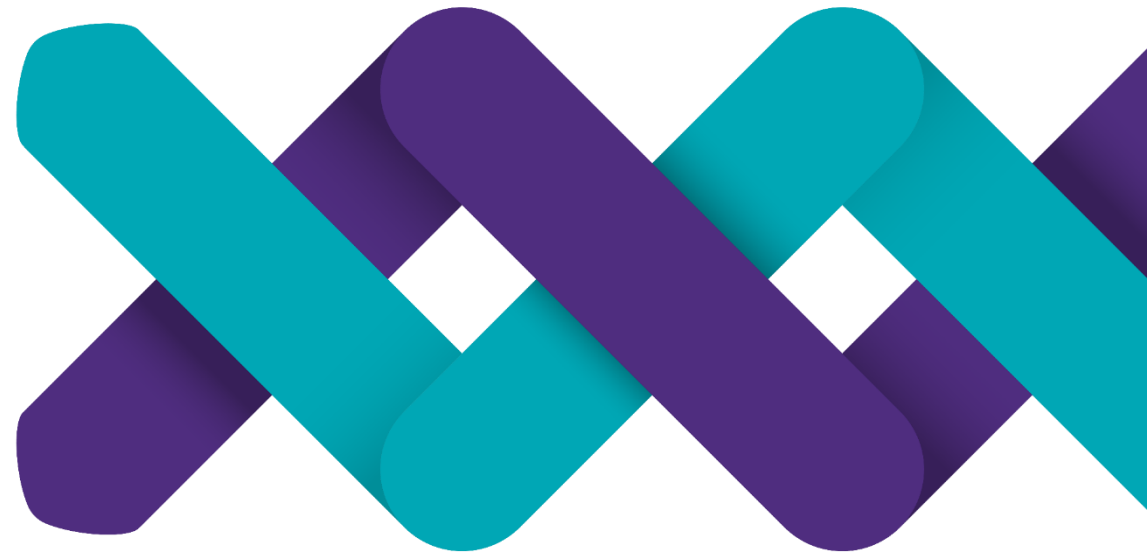


Audit Progress Report and Sector Update

Warwickshire Police and Crime Commissioner and Chief Constable
Year ending 31 March 2020

March 2020



Contents and Introduction



Alex Walling
Engagement Lead

T 0117 305 7804
M 07880 456 142
E Alex.J.Walling@uk.gt.com

This paper provides the Joint Audit and Standards 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.

Members of the Joint Audit and Standards 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 following link to be directed to the website <https://www.grantthornton.co.uk/>.

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.



Laurelin Griffiths
Engagement Manager

T 0121 232 5363
M 07974 179 055
E Laurelin.H.Griffiths@uk.gt.com

Contents

Progress at February 2020	3
Audit Deliverables	4
Sector Update	5

Progress at 24 February 2020

Financial Statements Audit

We have started planning for the 2019/20 financial statements audit and will issue a detailed Joint Audit Plan, setting out our proposed approach to the audit of the Group, PCC and Chief Constable 2019/20 financial statements.

We commenced our interim audit in February 2020. Our interim fieldwork visit includes:

- Updated review of the PCC and Chief Constable's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues such as the introduction of IFRS16
- Early substantive testing

We have discussed our plan and timetable with officers.

2018/19

Our audit of the 2018/19 financial statements was substantially complete in July 2019. Our provisional Joint Audit Findings Report was discussed with the Committee on 25 July 2019.

Our reviews of the PCC's and Chief Constable's value for money arrangements are still ongoing, along with our work to consider the ongoing uncertainties for the Chief Constable and PCC following the dissolution of the strategic alliance with West Mercia. We are working with management to finalise our 2018/19 audits as soon as is reasonably possible.

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 authority has 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 report the significant risks identified as a result of our 2019/20 initial risk assessment in our Joint Audit Plan.

We will report the conclusions from our work in the Joint Audit Findings Report and plan to give our Value For Money Conclusions by 30 September 2020.

Other areas

Meetings

We have been in regular communication with Finance Officers as we work to resolve the outstanding uncertainties for the 2018/19 audit.

We will continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process for 2019/20 is smooth and effective.

We are also meeting with the Chief Constable and PCC on 12 March.

Events

Our annual accounts workshop took place in February 2020 and key members of your finance team were attended to this. The workshop provided an update on the changes to accounting standards and allowed finance colleagues to network with their peers.

Audit Deliverables

2019/20 Deliverables	Planned Date	Status
Fee Letters Confirming audit scale fees for 2019/20.	April 2019	Complete
Joint Audit Plan We are required to issue a detailed accounts Joint Audit Plan to the Joint Audit and Standards Committee setting out our proposed approach in order to give an opinion on the Police and Crime Commissioner and group and Chief Constable's 2019/20 financial statements.	March 2020	Not yet due
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2020	Not yet due
Joint Audit Findings Report The Joint Audit Findings Report will be reported to the July Joint Audit and Standards Committee.	September 2020	Not yet due
Auditors Reports These are the opinions on your financial statements, annual governance statements and value for money conclusions.	September 2020	Not yet due
Joint Annual Audit Letter This letter communicates the key issues arising from our work.	October 2020	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

PEEL: Police effectiveness, efficiency and legitimacy 2018/19 – group 3

HMICFRS has published their findings for the third, and final, group of forces inspected in the PEEL 2018/19 assessment. This group of 14 reports completes a full annual cycle of inspections of the 43 forces in England and Wales, following previous publications in May and September 2019.

The summary press releases can be accessed by [clicking here](#)

PEEL spotlight report: Diverging under pressure – Overview of themes from PEEL inspections 2018/19

This report gives an overview of the themes from the 2018/19 PEEL (police effectiveness, efficiency and legitimacy) inspections. With the publication of the final 14 force reports from the third tranche of inspections, this report reflects on findings from all 43 force inspections to draw together national themes in policing.

PEEL is the annual assessment of police forces in England and Wales. HMICFRS assess forces in three ways to find out:

- how effective they are at preventing and investigating crime, protecting vulnerable people and tackling serious organised crime;
- how efficiently they manage demand and plan for the future; and
- how legitimately they treat the public, how ethically they behave, and how they treat their workforce.

Following the completion of HMICFRS's Integrated PEEL Assessments (IPA) for 2018/19, the inspectorate has found that although many forces are performing well under pressure, the consistency of service across England and Wales needs to be addressed.

In the report Divergence Under Pressure HMICFRS found that forces are still struggling to understand demand in their areas. This is preventing them from being able to use their resources well and plan for the future. Forces also need to ensure they are determined to maintain and improve how they treat the public, in particular using stop and search fairly and properly.

HMICFRS report that:

- forces have greatly improved their ability to protect vulnerable people and support victims;
- there is still a lack of capacity in neighbourhood policing to analyse and use intelligence;
- the likelihood of the police bringing someone to justice following a criminal investigation is decreasing; and
- there are stark differences in the way forces investigate crimes across the country.

The full report is available by clicking [here](#)

Home Office

Policing gets biggest funding boost in decade

The government has announced the biggest increase in funding for the police system in a decade.

The amount of funding available to the policing system for 2020 to 2021 will increase by more than £1.1 billion, totalling £15.2 billion, if Police and Crime Commissioners (PCCs) take full advantage of flexibility to set the police precept.

This represents an almost 10% increase on the core (resource) grant provided to forces last year, enabling the police to cut crime and deliver on the people's priorities.

It builds on a number of existing government commitments to bear down on the criminals who seek to do our communities and our country harm. It will enable forces to recruit 6,000 of the 20,000 additional police officers by the end of March 2021.

The settlement includes the £750 million announced by the Chancellor last year to enable forces to meet their officer recruitment targets.

The bulk will go directly to PCCs (£700 million). The remainder will be spent nationally on capabilities and infrastructure to support the recruitment drive.

As announced by the Home Secretary on Tuesday 21 January, funding for counter-terrorism policing will total £906 million in 2020 to 2021, a year-on-year increase of £90 million.

The full article is available by clicking [here](#).

Home Office announces first wave of 20,000 police officer uplift

The Home Office has confirmed the officer recruitment targets for every police force in England and Wales for the first year of the unprecedented drive to increase their ranks by 20,000 over the next 3 years.

Strengthening police numbers is a priority for the government, which is providing £750 million to support forces to recruit up to 6,000 additional officers onto our streets by the end of 2020 to 2021, the first stage in this new uplift.

All officers recruited as part of the 20,000 uplift will be additional to those hired to fill existing vacancies. They are also on top of the extra officers already being recruited because of the £1 billion increase in police funding for 2019 to 2020, which includes money from council tax and for serious violence.

The first-year recruitment targets are available [here](#).



Home Office

Other news

The Police Federation and CIPFA call for new funding system

The Police Federation and CIPFA have warned that the current funding formula and yearly settlement it generates is outdated and prevents long-term planning that could deliver greater savings. The calls for reform echo those made by PCCs in response to the announcement of this year's funding allocations.

Analysis by the Police Federation concluded that the settlement in real terms equates to 6.4% increase on last year. It is the responsibility of PCCs to add funding through the increases in the precept element of council tax.

CIPFA said the funding would meet the demands generated by the uplift recruitment programme but not the efficiencies that ministers are also expecting.

Rob Whiteman, CIPFA Chief Executive, said: 'This is yet another example of unsustainable, short-term thinking when it comes to police finance. Forces urgently need financial certainty in order to fulfil their vital role – protecting those in need and delivering a safer society.'

The full article can be accessed [here](#)



World Class Policing Awards 2020

The World Class Policing Awards recognise exceptional performance, effective collaboration, innovative and progressive policing, beneficial outcomes for the public, as well as initiatives that improve the welfare of officers and staff to empower them to greater achievement. The Awards celebrate and share World Class Policing knowledge and practice with the whole policing community.

The Awards will honour the very best in policing at a prestigious awards ceremony in London this November.

Nominations for the awards are now open. Find out more at <https://worldclasspolicing.com/home>



Brydon Review – the quality & effectiveness of audit

The Brydon review is an independent review, led by Sir Donald Brydon, which has looked at the quality and effectiveness of audit, seeking to make proposals that will improve the UK audit 'product'. The review has examined the nature and scope of audit from a user perspective and seeks to clarify and potentially close the 'expectation gap' (ie what stakeholders and society expect from audit compared to what it delivers today).

A full list of Sir Donald's recommendations can be found online, and a brief summary is provided below:

- Redefinition of audit and its purpose
- Creation of a corporate auditing profession, governed by principles
- Introduction of suspicion into the qualities of auditing
- Extension of the concept of auditing to areas beyond financial statements
- Mechanisms to encourage greater engagement of shareholders with audit and auditors
- Change in language of the opinion given by auditors
- Introduction of a corporate Audit and Assurance Policy, a Resilience Statement and a Public Interest Statement
- Suggestions to inform the work of BEIS on internal controls and improve clarity on capital maintenance
- Greater clarity around the roles of the audit committee
- A package of measures around fraud detection and prevention
- Improved auditor communication and transparency
- Obligations to acknowledge external signals of concern
- Extension of audit to new areas including Alternative Performance Measures
- Increased use of technology

On the auditor's responsibility to detect fraud, Jonathan Riley, Grant Thornton Head of Quality and Reputation, said: "We are pleased to note that Sir Donald Brydon makes it clear that not only is there an expectation gap in relation to the purpose of audit and the detection of fraud but that the current ISAs need revision, and training of corporate auditors need to be enhanced, in order to allow auditors to better detect fraud. This is further reinforced by the new ability to make it easier for users of accounts, not just management, to inform the auditor of concerns relating to financial statements."

"Notwithstanding these proposals, it is neither possible or desirable for an auditor to test in detail every transaction of the company and so materiality will still exist. In addition, a fraud involving collusion and sophistication may still prove extremely hard to detect."

Grant Thornton welcomes the consideration given by Sir Donald on the quality and effectiveness of audit. These recommendations should bring far greater clarity and transparency to the profession and ultimately result in an audit regime that allows auditors to better assess, assure and inform all users of financial accounts.

Crucially, the Government must now consider these recommendations not just in context of earlier inquiries into the profession, but also against the backdrop of global trade and Britain's future role as a pillar of global commerce. The report places new obligations not only on auditors, but also on company directors. Together with other regulations such as the revised Ethical Standard and wider corporate governance requirements, the proposed changes need to strike the right balance and not dent our place on the world's financial stage. Careful explanation particularly of what this means to those fast growing mid-sized public entities seeking capital will be necessary.

The public perception of audit remains weak and failures continue to happen, so we agree that now is the right time to explore what needs to change to ensure that audit is fit for modern day business and meets the public interest. The report should contribute heavily towards this outcome.

Link to the full report and full list of recommendations:

<https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review>

Redmond Review – Review of local authority financial reporting and external audit

The independent review led by Sir Tony Redmond sought views on the quality of local authority financial reporting and external audit. The consultation ran from 17 September 2019 to 20 December 2019.

Grant Thornton provided a comprehensive submission. We believe that local authority financial reporting and audit is at a crossroads. Recent years have seen major changes. More complex accounting, earlier financial close and lower fees have placed pressure on authorities and auditors alike. The target sign-off date for audited financial statements of 31 July has created a significant peak of workload for auditors. It has made it impossible to retain specialist teams throughout the year. It has also impacted on individual auditors' well-being, making certain roles difficult to recruit to, especially in remote parts of the country.

Meanwhile, the focus on Value for Money, in its true sense, and on protecting the interests of citizens as taxpayers and users of services are in danger of falling by the wayside. The use of a black and white 'conclusion' has encouraged a mechanistic and tick box approach, with auditors more focused on avoiding criticism from the regulator than on producing Value for Money reports that are of value to local people.

In this environment, persuading talented people to remain in the local audit market is difficult. Many of our promising newly qualified staff and Audit Managers have left the firm to pursue careers elsewhere, often outside the public sector, and almost never to pursue public audit at other firms. Grant Thornton is now the only firm which supports qualification through CIPFA. It is no longer clear where the next generation of local auditors will come from.

We believe that now is the time to reframe both local authority financial reporting and local audit. Specifically, we believe that there is a need for:

- More clearly established system leadership for local audit;
- Simplified local authority financial reporting, particularly in the areas of capital accounting and pensions;

- Investing in improving the quality of financial reporting by local bodies;
- A realistic timescale for audit reporting, with opinion sign off by September each year, rather than July;
- An increase in audit fees to appropriate levels that reflect current levels of complexity and regulatory focus;
- A more tailored and proportional approach to local audit regulation, implementing the Kingman recommendations in full;
- Ensuring that Value for Money audit work has a more impactful scope, as part of the current NAO Code of Audit Practice refresh;
- Introducing urgent reforms which help ensure future audit arrangements are sustainable and attractive to future generations of local audit professionals.

We note that Sir Donald Brydon, in his review published this week, has recommended that *“the Audit, Reporting and Governance Authority (ARGA) (the proposed new regulatory body) should facilitate the establishment of a corporate auditing profession based on a core set of principles. (This should include but not be limited to) the statutory audit of financial statements.”* Recognising the unique nature of public audit, and the special importance of stewardship of public money, we also recommend that a similar profession be established for local audit. This should be overseen by a new public sector regulator.

As the reviews by John Kingman, Sir Donald Brydon, and the CMA have made clear, the market, politicians and the media believe that, in the corporate world, both the transparency of financial reporting and audit quality needs to be improved. Audit fees have fallen too low, and auditors are not perceived to be addressing the key things which matter to stakeholders, including a greater focus on future financial stability. The local audit sector shares many of the challenges facing company audit. All of us in this sector need to be seen to be stepping up to the challenge. This Review presents a unique opportunity to change course, and to help secure the future of local audit, along with meaningful financial reporting.

National Audit Office – Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. 'Relevant authorities' are set out in Schedule 2 of the Act and include local councils, fire authorities, police and NHS bodies.

Local auditors must comply with the Code of Audit Practice.

Consultation – New Code of Audit Practice from 2020

Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

In order to determine what changes might be appropriate, the NAO consulted on potential changes to the Code in two stages:

Stage 1 involved engagement with key stakeholders and public consultation on the issues that are considered to be relevant to the development of the Code.

The NAO received a total of 41 responses to the consultation which included positive feedback on the two-stage approach to developing the Code that has been adopted. The NAO stated that they considered carefully the views of respondents in respect of the points drawn out from the [Issues paper](#) and this informed the development of the draft Code. A summary of the responses received to the questions set out in the [Issues paper](#) can be found below.

[Local audit in England Code of Audit Practice – Consultation Response \(pdf – 256KB\)](#)

Stage 2 of the consultation involved consulting on the draft text of the new Code. To support stage 2, the NAO published a consultation document, which highlighted the key changes to each chapter of the draft Code. The most significant changes are in relation to the Value for Money arrangements. The draft Code includes three specific criteria that auditors must consider:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

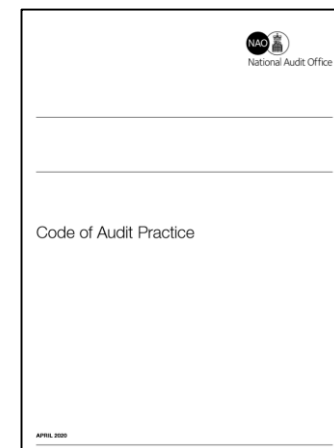
The auditor will be required to provide a commentary on the arrangements in place to secure value for money. Where significant weaknesses are identified the auditor should make recommendations setting out

- Their judgement on the nature of the weakness identified
- The evidence on which their view is based
- The impact on the local body
- The action the body needs to take to address the weakness

The consultation document and a copy of the new Code can be found on the NAO website. The new Code will apply from audits of local bodies' 2020-21 financial statements onwards.

Link to NAO webpage for the new Code:

https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf



Implementation of International Financial Reporting Standard 16 Leases

IFRS 16 Leases, as interpreted and adapted for the public sector, will be effective from 1 April 2020.

Background

IFRS 16 Leases was issued by the International Accounting Standards Board (IASB) in January 2016 and is being applied by HM Treasury in the Government Financial Reporting Manual from 1 April 2020. Implementation of the Standard will be included in the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) for 2020/21.

The new Standard replaces the current leasing standard IAS 17 and related interpretation documents IFRIC 4, SIC 15 and SIC 27 and it sets out the principles for the recognition, measurement, presentation and disclosure of leases. The IASB published IFRS 16 because it was aware that the previous lease accounting model was criticised for failing to provide a faithful representation of leasing transactions.

Impact on 2019/20 financial statements

Whilst the new Standard is effective from 1 April 2020, authorities are required by the Code to *'disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted'*. This requirement of the Code (3.3.4.3) reflects the requirements of paragraph 30 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

In the 2019/20 financial statements we would therefore expect to see authorities make disclosures including:

- the title of the Standard
- the date of implementation
- the fact that the modified retrospective basis of transition is to be applied, with transition adjustments reflected through opening reserves
- known or reasonably estimable information relevant to assessing the possible impact that application will have on the entity's financial statements, including the impact on assets, liabilities, reserves, classification of expenditure and cashflows
- the basis for measuring right of use assets on transition
- the anticipated use of recognition exemptions and practical expedients recognising that what is sufficient disclosure for one body may not be sufficient for another

Information needed for 2019/20 financial statements

In order to make disclosures in 2019/20, a significant amount of data will be needed, most significantly:

- a complete list of leases previously identified under IAS 17 and IFRIC 4
- details of non-cancellable lease terms, purchase options, extension and termination options
- details of lease arrangements at peppercorn or NIL rental
- anticipated future cash flows and implicit interest rates or incremental borrowing rates to enable calculation of lease liabilities

Audit work on IFRS 16 transition

At this stage, we would expect you to have:

- determined whether the impact of IFRS 16 will be material for your authority
- raised awareness of the new Standard across the authority, potentially including procurement, estates, legal and IT departments
- assessed the completeness and accuracy of your lease register and taken action if necessary
- formalised and signed existing lease documentation
- identified leases of low value assets and leases with short terms
- considered whether liaison with valuation experts is necessary
- started to draft your 2019/20 disclosure note
- started to embed processes to capture the data necessary to manage the ongoing accounting implications of IFRS 16

and that you are monitoring progress against an approved IFRS 16 implementation plan. Your local engagement team will be in touch to discuss your progress with IFRS 16 implementation and audit working paper requirements.

Implementation of International Financial Reporting Standard 16 *Leases*

Further information and guidance

CIPFA published their 2020/21 Code consultation on 12 July 2019, including an Appendix concerned with IFRS 16 implementation, further details can be found at:

<https://www.cipfa.org/policy-and-guidance/consultations-archive/code-of-practice-on-local-authority-accounting-in-the-united-kingdom-202021?crdm=0>

HM Treasury published IFRS 16 Application Guidance in December 2019 which can be found at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/853238/IFRS_16_Application_Guidance_December_2019.pdf

CIPFA's IFRS 16 'Early guide for local authority practitioners' is available at:

<https://www.cipfa.org/policy-and-guidance/publications/i/ifrs-16-leases-an-early-guide-for-local-authority-practitioners>

IFRS 16 has been adopted a year earlier in the commercial sector. The Financial Reporting Council has published an IFRS 16 Thematic Review '*Review of Interim Disclosures in the First Year of Application*', containing key findings from their review and providing helpful insights into important disclosure requirements. The FRC's publication is available at:

<https://www.frc.org.uk/getattachment/a0e7c6e7-67d0-40fe-b869-e5cc589afe79/IFRS-16-thematic-review-2019-optomised.pdf>

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.

