

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.



The Joint Audit Findings for Police and Crime Commissioner for the West Midlands and Chief Constable

Year ended 31 March 2019
July 2019



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 findings and other matters arising from the statutory audits of the West Midlands Police and Crime Commissioner ('the PCC') and the West Midlands Chief Constable and the preparation of the PCC and Chief Constable's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the entity's (and where relevant, the group's) financial statements:</p> <ul style="list-style-type: none"> • give a true and fair view of the financial position of the entity and the entity's income and expenditure 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. <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work commenced on site in June. Our findings are summarised on the following pages. We have identified one adjustment relating to the McCloud-Sargeant pensions ruling which resulted in an increase to the Cost of Police Services for the Chief Constable of £347.7 million, and to the Office of the PCC of £0.85 million. Both impacted the CIES of the Group financial statements.</p> <p>Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit were reported to the March Joint Audit Committee and all recommendations were implemented, or the recommendation has been re-raised within the 2018/19 work. This is detailed in Appendix B.</p> <p>Our work is in progress and at this stage there are no other material matters of which we are aware that would require modification of our audit opinions. Subject to outstanding work detailed on page 4, we anticipate issuing unqualified audit opinions for both corporations sole.</p> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisations and the financial statements we have audited.</p>
Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, both entities have made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>We have completed our risk based reviews of the PCC's and Chief Constable's value for money arrangements. We have concluded that both the West Midlands PCC and the West Midlands Chief Constable have proper arrangements to secure economy, efficiency and effectiveness in their use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusions, as detailed in Appendices E and F. Our findings are summarised on the following pages.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audits. 	<p>We have not exercised any of our additional statutory powers or duties for either entity.</p> <p>We have completed the majority of work under the Code with the exception of the work on Whole of Government Accounts consolidation, which cannot be undertaken until the financial statements audit is completed. The deadline for this is 13 September. We plan to issue our completion certification following our work on your WGA return.</p>

Acknowledgements

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

Summary

Overview of the scope of our audit

This Joint Audit Findings Report 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 and the Police and Crime Commissioner and Chief Constable of the West Midlands as those charged with governance.

As auditor we are responsible for performing the audits, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does 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 group's, 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;
- An evaluation of the PCC and Chief Constable's internal controls environment, including their 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

We have not had to alter or change our audit plan, as communicated to you on 28 March 2019.

Audit status

We have completed most of our audit of your financial statements and, subject to the satisfactory completion of outstanding work and queries (as set out below), we anticipate issuing unqualified audit opinions in respect of the Chief Constable's financial statements and the PCC's financial statements, as well as the group financial statements which consolidate the financial activities of the Chief Constable (Appendices E and F).

These outstanding items include:

- review of the external property valuer's assessment to gain assurance at the year end (31 March 2019) over the material accuracy of the carrying value of land and building assets, which were revalued as at December 2018. Additional audit work may be required due to the limited nature of the valuer's assessment.
- receipt and review of third party bank confirmation letters. Should these not be received we will need to consider performing additional alternative procedures.
- receipt and review of third party investment confirmation letters.
- receipt and review of assurances from the West Midlands Pension Fund auditor as to the controls surrounding the validity and accuracy of member data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation on the pension fund financial statements.
- completion of our work in respect of member data numbers for the Police Pension Scheme.
- updating our review of events after the balance sheet date to the date of the audit opinion.
- receipt and review of management representation letters.
- receipt and review of the final sets of financial statements.
- senior management and quality review of work performed on the audit file and satisfactory follow up and resolution of any queries raised.

Summary

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 materiality has been adjusted to reflect the change in gross expenditure from the prior year. We detail in the table below our determination of materiality for the West Midlands Police and Crime Commissioner, the West Midlands Police Chief Constable and the Group. We have applied the lowest of these materialities for the audit of each entity and the group

	Group Amount (£)	PCC Amount (£)	Chief Constable Amount (£)	Qualitative factors considered
Materiality for the financial statements	14,842,000	13,177,000	14,573,000	We decided that total expenditure in year was the most appropriate benchmark. Financial activity is driven by demand and funded by the taxpayer and expenditure is based on the level of activity. Our risk assessment of the Group and single entities calculated materiality for each. Approximately 2% of total expenditure was considered an appropriate level for materiality. We have used the lowest materiality amount of £13.177 million for the single entity accounts and the group.
Performance materiality	11,132,000	9,883,000	10,930,000	Our planning and risk assessment did not identify the potential for significant control deficiencies as a result of our audit work. We decided that performance materiality of 75% of our overall materiality levels was an appropriate level. We have used the lowest of the three performance materiality – £9.883 million – for each entity.
Trivial matters	742,000	659,000	729,000	We determined the threshold at which we would communicate misstatements to the Joint Audit Committee at 5% of financial statement materiality. We used the lowest of the three trivial thresholds for each entity, £0.659 million.

Significant findings – audit risks

Risks identified in our Audit Plan	Relates to	Commentary
<p>1 Management over-ride of controls</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 Chief Constable and PCC face external scrutiny of their spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business, as a significant risk of material misstatement.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	Both	<p>Auditor commentary</p> <p>We have:</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals; gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness; obtained a full listing of journal entries, identified unusual journals and are finalising our testing of unusual journal entries for appropriateness; evaluated the rationale for any changes in accounting policies or significant unusual transactions. <p>Conclusion</p> <p>Subject to the satisfactory completion of outstanding work set out on page 4, there are no material issues arising to draw to the attention of those charged with governance in respect of the identified risk.</p>
<p>2 The revenue cycle includes fraudulent transactions (rebutted)</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>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 (rebutted)	<p>Auditor commentary</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the PCC, we determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> there is little incentive to manipulate revenue recognition; opportunities to manipulate revenue recognition are very limited; the culture and ethical frameworks of police bodies, including the West Midlands PCC, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk for the 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 the Chief Constable</p> <p>Conclusion</p> <p>There have been no changes to the assessment above as reported in our audit plan.</p>

Significant findings – audit risks

Risks identified in our Audit Plan	Relates to	Commentary
<p>3 Valuation of property, plant and equipment</p> <p>The PCC revalues land and buildings on a quinquennial basis to ensure that carrying value is not materially different from current value</p> <p>In the prior year, a desktop valuation was performed in order to ascertain that the valuation of assets was not materially misstated. A full valuation will be carried out in 2018/19.</p> <p>We identified, therefore, that the valuation of land and buildings as a significant risk of material misstatement.</p>	PCC	<p>Auditor commentary</p> <p>We have:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; evaluated the competence, capabilities and objectivity of the valuation expert; challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; tested revaluations made during the year to see if they had been input correctly into the Group and PCC asset register; 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 from current value at year end. <p>Our work identified that the asset register is not able to report the split in revaluations taken to the revaluation reserve and the surplus/(deficit). This results in the PCC accounts not complying with the Code but more importantly, where the revaluation is reversed it will be unclear what proportion of the balance goes where. A recommendation has been made relating to house-keeping in 2019/20 to assess whether this information can be captured within the asset register.</p> <p>Outstanding matters</p> <p>During the audit, we noted that the assets had been valued as at 31 December 2018, rather than the year end balance sheet date of 31 March 2019. Management requested a response from the valuer to enable them to confirm whether or not any valuation movements from the valuation date to the year end date are material. The response received confirms the valuer is working to a materiality level significantly above the financial statements materiality level, and provides insufficient information to enable us to consider the accuracy and validity of the valuer's conclusions in this respect. We will therefore undertake additional audit analysis and work in order to assess whether the current value as at 31 March 2019 is materially different from the carrying value.</p> <p>Conclusion</p> <p>Subject to the satisfactory resolution of the issues outlined above and the satisfactory completion of outstanding work set out on page 4, we have identified no further material issues to report to those charged with governance in respect of the identified risk.</p>


Significant findings – audit risks

Risks identified in our Audit Plan	Relates to	Commentary
<p>4 Valuation of pension fund net liability</p> <p>The Local Government Pension Scheme (LGPS) pension net liability as reflected in the balance sheet, and asset and liability information disclosed in the notes to the accounts, represent significant estimates in the financial statements.</p> <p>The Police Officer Pension schemes pension fund liability as reflected in the balance sheet and notes to the accounts 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> <p>This estimate has been impacted by the recent court judgement regarding McCloud / Sargeant.</p>	Both	<p>Auditor commentary</p> <p>We have:</p> <ul style="list-style-type: none"> identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement; evaluated the competence, expertise and objectivity of the actuaries who carried out your pension fund valuations. We have gained an understanding of the basis on which the valuations are carried out; undertaken procedures to confirm the reasonableness of the actuarial assumptions made; checked the consistency of the pension fund asset and liability and disclosures in notes to the draft financial statements with the actuarial reports from your actuaries. undertaken procedures to assess the impact of the McCloud judgement upon the financial statements. <p>Outstanding matters</p> <p>As at the date of writing, we are awaiting the required assurances from the auditor of West Midlands Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.. These are expect to be provided upon completion of the West Midlands Pension Fund audit.</p> <p><u>Impact of the McCloud transitional protection pensions ruling</u></p> <p>The Court of Appeal ruled in December 2018 that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was refused in late June 2019. The case will now be remitted back to employment tribunal for remedy. This decision was made after the accounts had been submitted for audit and, therefore, the draft accounts did not account for any transactions relating to these matters.</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits. For the PCC and Chief Constable, this encompasses both the Police Officer Pension Scheme and the Local Government Pension Scheme.</p>

Significant findings – audit risks

	Risks identified in our Audit Plan	Relates to	Commentary
4	Valuation of pension fund net liability continued	Both	<p>Our view is that the McCloud judgement gives rise to a past service cost and liability within the scope of IAS 19 Employee Benefits as the ruling created a new obligation. In June 2019 we wrote to all our local government, police and fire clients, setting out our views and recommending that bodies ask their actuaries to re-run their IAS19 reports, reflecting the best estimate for restitution and providing sensitivity analysis for key assumptions.</p> <p>Management requested estimates from their actuaries of the potential impact of the McCloud ruling. The actuary's estimate for the Police Pension Scheme was of a likely increase in past service cost and overall pension liabilities of £336.5 million. For the Local Government Pension Scheme, Barnett Waddingham estimated the potential increase in scheme liabilities as a result of this judgment to be approximately 11.2 million for the Group. These total the £347.7 million adjustment to the CIES reported on page 3.</p> <p>Management has updated their financial statements to reflect the revised liability and service cost figures provided by their actuaries. This has resulted in changes to the draft Chief Constable, PCC and Group Comprehensive Income and Expenditure Statements, Balance Sheets and Movement in Reserves Statements, as well as a number of the Notes to the financial statements including the Expenditure and Funding Analysis and explanatory note, Adjustments between Accounting Basis and Funding Basis under Regulation, Unusable Reserves and Defined Benefit Pension Schemes. This impact has been reported within 'Adjusted Misstatements' at Appendix C. These amendments remain subject to final audit review.</p> <p>In addition, an additional disclosure note has been included within the financial statements, explaining the position and the impact on both long-term liabilities in the Chief Constable, PCC and Group balance sheets as well as potential increases in contributions payable to each scheme in future years following further actuarial valuations. This remains subject to finalisation and audit review. This has been reflected in 'Misclassification and Disclosure Changes' at Appendix C.</p> <p><u>Impact of Guaranteed Minimum Pension (GMP) equalisation ruling</u></p> <p>In October 2018, the High Court ruled that defined benefit pension schemes must remove any discriminatory effect that guaranteed minimum pension entitlements (GMPs) have had on members benefits. GMPs must be equalised between men and women and that past underpayments must be corrected. Actuaries have taken differing approaches to this issue.</p> <p>The Government has announced an "interim solution" for members in public service schemes, including the Police Pension Scheme and the Local Government Pension Scheme. We performed specific work to ensure that the impact had been sufficiently included within the Chief Constable and PCC's pensions liability calculations.</p> <p>We are satisfied that all material liabilities arising from the GMP ruling have been included for both schemes in the Chief Constable and PCC balance sheets, having already been considered in the original actuarial valuations obtained for the draft financial statements, or otherwise having an immaterial impact. No amendment to the financial statements has been required as a result of this issue.</p>
			<p>Conclusion</p> <p>Subject to the satisfactory resolution of the issues outlined above and the satisfactory completion of outstanding work set out on page 4, we have identified no further material issues to report to those charged with governance in respect of the identified risk.</p>


Significant findings – key judgements and estimates

	Relates to	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Other – £159.0 million	PCC	<p>Other land and buildings comprises £40.5 million of specialised assets such as custody suites, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end.</p> <p>The PCC engaged Savills to complete the valuation of properties as at 31/12/18 on a five yearly cyclical basis, and to provide a review of assets as at year end to confirm whether there had been material movements in the valuation from that date.</p> <p>The valuation of properties valued by the valuer has resulted in a net increase of £6.102 million. The total year end valuation of Other land and buildings was £159 million, a net increase of £11.5 million from 2017/18 (£147.5 million). £3.637 million of the net increase has directly impacted on the PCC's Comprehensive Income and Expenditure Statement.</p> <p>Management requested a response from the valuer to enable them to confirm whether or not any valuation movements from the valuation date to the year end date are material. The response received confirms the valuer is working to a materiality level significantly above the financial statements materiality level, and provides insufficient information to enable us to consider the accuracy and validity of the valuer's conclusions in this respect. We will therefore undertake additional audit analysis and work in order to assess whether the current value as at 31 March 2019 is materially different from the carrying value.</p>	<ul style="list-style-type: none"> We have not identified any issues with the independence or competence of Savills We have gained assurance over the completeness and accuracy of the underlying information used to determine the valuation estimate as at 31 December 2018 There were no changes to valuation method The estimate has been made consistently with other estimates made by peers/industry best practice The increase in the value of the estimate appears reasonable Adequate disclosures have been made of the estimate in the financial statements <p>Outstanding matters</p> <p>We are currently assessing the external property valuer's assessment to gain assurance at the year end (31 March 2019) over the material accuracy of the carrying value of land and building assets, which were revalued as at December 2018. The response received confirms the valuer is working to a materiality level significantly above the financial statements materiality level, and provides insufficient information to enable us to consider the accuracy and validity of the valuer's conclusions in this respect. We will therefore undertake additional audit analysis and work in order to assess whether the current value as at 31 March 2019 is materially different from the carrying value.</p> <p>Conclusion</p> <p>Subject to the satisfactory resolution of the issues outlined above and the satisfactory completion of outstanding work set out on page 4, we have identified no further material issues to report to those charged with governance in this area.</p>	 Green

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process and key assumptions to be reasonable

Significant findings – key judgements and estimates

	Relates to	Summary of management's policy	Audit Comments	Assessment																																										
Net pension liability – £369.8 million	Chief Constable	<p>The PCC and Chief Constable's total net pension liability at 31 March 2019 is £369.8 million (PY £342.6 million). This is with West Midlands Pension Fund Local Government defined benefit pension scheme. The PCC and Chief Constable uses Barnett Waddingham to provide actuarial valuations of the group's assets and liabilities derived from these schemes, utilising key assumptions such as life expectancy, discount rates and salary growth.</p> <p>Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £191.966 million remeasurement of the net defined benefit liability during 2018/19 which impacted the Comprehensive Income and Expenditure Statement.</p>	<ul style="list-style-type: none"> We have assessed both actuaries, the Government Actuarial Department (GAD) and Barnett Waddingham (BW), to be competent, capable and objective. We have used PwC as auditor's expert to assess the actuaries and assumptions made by the actuaries. All assumptions fell within PwC's acceptable range, and all assumptions used by the actuaries were used and disclosed by West Midlands Police. See the table below for our comparison of actuarial assumptions. 	 Green																																										
			<table border="1"> <thead> <tr> <th>Assumption</th> <th>GAD's value</th> <th>PwC range</th> <th>Assessment</th> <th>BW's value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.45%</td> <td>2.45%</td> <td style="text-align: center;">●</td> <td>2.40%</td> <td>2.35% - 2.45%</td> <td style="text-align: center;">●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.35%</td> <td>2.35%</td> <td style="text-align: center;">●</td> <td>2.40%</td> <td>2.45% - 2.40%</td> <td style="text-align: center;">●</td> </tr> <tr> <td>Salary growth</td> <td>4.35% (0.05% increase on 17/18)</td> <td>0.5% increase acceptable</td> <td style="text-align: center;">●</td> <td>3.90% (0.05% increase on 17/18)</td> <td>0.5% increase acceptable</td> <td style="text-align: center;">●</td> </tr> <tr> <td>Life expectancy – Males currently aged 65 / 45</td> <td>24.6 22.7</td> <td>22.6 - 24.6 (65) 20.0 - 24.3 (45)</td> <td style="text-align: center;">●</td> <td>20.9 (65) 22.6 (45)</td> <td>20.6 - 23.4 (65) 22.2 - 25.0 (45)</td> <td style="text-align: center;">●</td> </tr> <tr> <td>Life expectancy – Females currently aged 65 / 45</td> <td>24.3 26.2</td> <td>20.0 - 24.3 (65) 22.6 - 26.2 (45)</td> <td style="text-align: center;">●</td> <td>23.2 (65) 25.0 (45)</td> <td>23.2 - 24.8 (65) 25.0 - 26.6 (45)</td> <td style="text-align: center;">●</td> </tr> </tbody> </table>	Assumption	GAD's value	PwC range	Assessment	BW's value	PwC range	Assessment	Discount rate	2.45%	2.45%	●	2.40%	2.35% - 2.45%	●	Pension increase rate	2.35%	2.35%	●	2.40%	2.45% - 2.40%	●	Salary growth	4.35% (0.05% increase on 17/18)	0.5% increase acceptable	●	3.90% (0.05% increase on 17/18)	0.5% increase acceptable	●	Life expectancy – Males currently aged 65 / 45	24.6 22.7	22.6 - 24.6 (65) 20.0 - 24.3 (45)	●	20.9 (65) 22.6 (45)	20.6 - 23.4 (65) 22.2 - 25.0 (45)	●	Life expectancy – Females currently aged 65 / 45	24.3 26.2	20.0 - 24.3 (65) 22.6 - 26.2 (45)	●	23.2 (65) 25.0 (45)	23.2 - 24.8 (65) 25.0 - 26.6 (45)	●	
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			<ul style="list-style-type: none"> We have gained assurance over the completeness and accuracy of the underlying information used to determine the estimate. There were no changes to valuation method, other than the impact of the McCloud judgement which has been separately discussed The actuary's methodology is broadly consistent with those of its peers and falls within the PwC range which has been used to challenge the actuary. The increase in the estimate appears reasonable given the factors considered. No issues noted regarding the adequacy of the accounting treatment in the financial statements No issues noted regarding the adequacy of disclosure of estimate in the financial statements. Additional disclosures have been made regarding the McCloud judgement. 																																											

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process and key assumptions to be reasonable

Significant findings – Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary – Chief Constable and PCC

Management's assessment process

Chief Constable

The Statement of Accounts has been prepared on a going concern basis, which is the concept that the CC will remain in operational existence for the foreseeable future, in particular that the revenue accounts and Balance Sheet assume no intention to curtail significantly the scale of operations.

PCC

The Statement of Accounts has been prepared on a going concern basis, which is the concept that the PCC will remain in operational existence for the foreseeable future, in particular that the revenue accounts and Balance Sheet assume no intention to curtail significantly the scale of operations.

Auditor commentary

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

The Chief Constable and PCC continue to face significant financial challenges. The scale of transformation required to reduce baseline spending is sizeable. It was estimated in the 2019/20 budget submission that the baseline savings of c£10m are required by 2023, of which around £4m are budgeted to be realised from change and transformation programmes.

Uncertainties in the medium term regarding central government funding has made financial planning for the future challenging. We have examined the Medium Term Financial Plan (MTFP) and assessed the reasonableness of assumptions, judgements and estimates. The MTFP sets a target of growth for Police Officers of 250 by 2020 bringing the FTEs to 6,755. This is a reversal of a recent trend where officer establishment has steadily been reducing to maintain financial resilience.

The Force's transformational change programme (WMP2020) has required a planned use of reserves to create efficiencies, either through direct cost-savings or increased capacity to enable the Force to deliver more for less. Further use of reserves is planned with £23.5 million being utilised in 2019/20. Beyond this, the Reserves Strategy published in March 2019 indicates that the Force will be in balance. It is therefore critical that transformation progress is aligned with both the MTFP and Reserves Strategy to identify any unexpected budgetary gaps. Delays to the transformation programme, the realisation of benefits, or reduction in the value of benefits realised could have an impact on the long term financial sustainability of the organisation.

General Fund reserves as at 31 March 2019 were £12.042 million, held at the same level as at 31 March 2018 and 2017 and in line with the Reserves Strategy. This represents a General Fund of approximately 1.6% of gross expenditure.

The PCC has approved a balanced budget for 2019/20.

Work performed

We have reviewed the 2019/20 budget and updated MTFP as part of our Value for Money Conclusion work. We have considered the key variables in the MTFP and the financial risks the Police and Crime Commissioner and the Chief Constable are managing. We have also reviewed management's cashflow forecast up to 31 July 2020.

Conclusion

We do not consider there to be a material uncertainty which could cast doubt on either entity's ability to continue as a going concern. The Group holds £12 million of useable revenue reserves as at 31 March 2019. Based on this, we are satisfied that it remains appropriate for the PCC and Chief Constable to prepare accounts on a going concern basis as at 31 March 2019. Both the PCC and Chief Constable have a reasonable expectation that services they provide will continue for the foreseeable future. For this reason we considered it appropriate for both entities to continue to adopt the going concern basis in preparing the financial statements.

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 for both the West Midlands Police and Crime Commissioner and the West Midlands Chief Constable.

Issue	Commentary
① Matters in relation to fraud	We have previously discussed the risk of fraud with the Joint Audit Committee, the Chief Constable and the PCC. We have not been made aware of any material incidents in the period and no other material issues have been identified during the course of our audit procedures.
② Matters in relation to related parties	We have previously discussed the arrangements in place to capture and report any related parties with the Joint Audit Committee, the Chief Constable and the PCC. From the work we carried out, we have not identified any related party transactions which have not been disclosed.
③ Matters in relation to laws and regulations	We have previously discussed the arrangements in place to adhere to laws and regulations with the Joint Audit Committee, the Chief Constable and the PCC. 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.
④ Written representations	A standard letter of representation has been requested from each of the PCC and Chief Constable, including specific representations in respect of the Group.
⑤ Confirmation requests from third parties	We requested from management permission to send confirmation requests to bank and investment counter-parties. This permission was granted and the requests were sent. We have not yet received responses from these third parties and may need to consider undertaking additional alternative procedures.
⑥ Disclosures	Our review to date has found no material omissions in the financial statements.
⑦ Audit evidence and explanations/significant difficulties	All information and explanations requested from management were provided. The detailed work which has been undertaken by the finance team and the audit team has ensured that the accounts production was smoother than the previous year and the provision of audit evidence has been more straight forward from the finance system.

Other responsibilities under the Code

Issue	Commentary
1 Other information	<p>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.</p> <p>No inconsistencies have been identified. Following the additional disclosures in the Annual Governance Statements being made, we plan to issue unqualified opinions in this respect – refer to appendices E and F</p>
2 Matters on which we report by exception	<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"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters</p>
3 Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the PCC and Chief Constable exceeds the specified group reporting threshold of £500 million we examine and report on the consistency of the WGA consolidation pack with the PCC and Chief Constable's audited financial statements.</p> <p>This work will take place following the completion of the financial statements audit. We will complete the required procedures in advance of the reporting deadline of 13 September 2019.</p>
4 Certification of the closure of the audit	<p>We are unable to certify the closure of the 2018/19 audits of West Midlands PCC and West Midlands Chief Constable until the required procedures in respect of the WGA outlined under point 3 above have been performed. This necessarily takes place following the conclusion of the financial statements audit. This is reflected in the audit opinions, as detailed in Appendices E and F. We intend to certify the closure of the audits in advance of the WGA reporting deadline of 13 September 2019.</p>

Value for Money

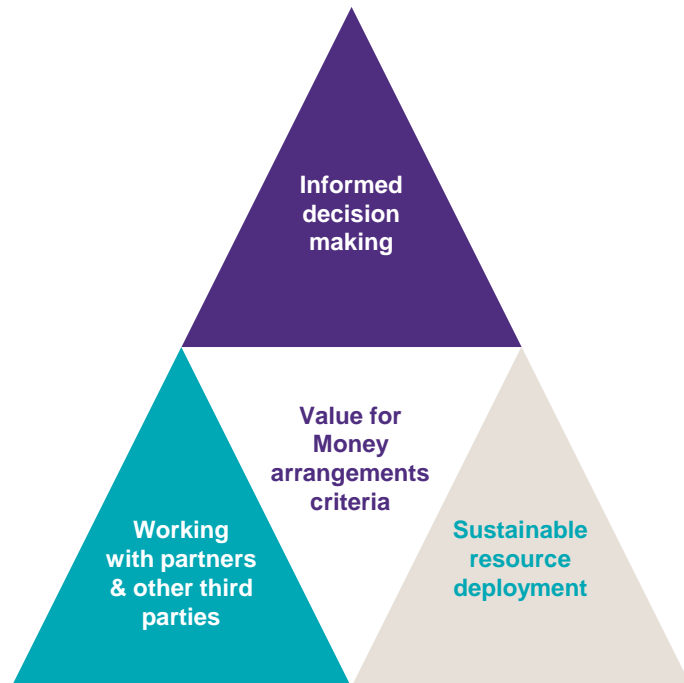
Background to our VFM approach

We are required to satisfy ourselves that the PCC and Chief Constable have made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the PCC and Chief Constable. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 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 March 2019 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated March 2019.

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 risks 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 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 the PCC and Chief Constable's arrangements. In arriving at our conclusion, our main considerations were:

- **Devolution** – The decision made by the West Midlands Combined Authority not to progress the devolution deal in the West Midlands has resulted in the potential governance risk identified in our initial risk assessment not materialising.
- **Financial strategy and long term sustainability** – From the way in which the public contact the force to how West Midlands Police respond, investigate and prevent re-offending, the WMP Change programme of work (WMP2020) has been an ambitious five-year project to radically overhaul all aspects of the business with people and technology at its heart. By redesigning service delivery, the overall aim was to provide efficient processes to facilitate strong customer focus within significantly reduced budgets. WMP2020, and the contract with AccentureUK Ltd, is due to end in July 2019. Significant projects have been delivered and whilst there have been challenges delivering efficiencies and realising benefits, the Force has considerably changed the way services are delivered over the past five years.
- Set against a backdrop of financial austerity, increased crime levels and increased public expectations from Policing, progress has been made and the embedding of this project and continued delivery of benefits over the coming Medium Term Finance Plan (MTFP) will be a crucial test for its overall success. If WMP2020 benefits do not materialise as forecast, it is important that this is clearly documented and understood given the potential for benefits to slip or not be realised. The MTFP is closely aligned with the WMP2020 programme, its savings and financial benefits and the Director of Commercial Services, supported by the newly appointed Assistant Director of Finance, maintains close links to the programme reflecting the financials in the MTFP.
- **Risk Management** – The PCC and Force maintain separate registers for their corporate and operational risks. The format of these has been aligned in 2018/19 although the scoring methodology is still different. Whilst the registers are utilised independently by the PCC and Force, the overarching governance arrangements mean that they are reported together to inform the business of the Joint Audit Committee. Having greater alignment in the scoring methodologies would enable those with oversight of the wider business can make more informed decisions in directing attention and resource.

Grant Thornton insight – *The key issue on police finance continues to be the uncertainty in the medium term. Funding is only indicative for one year at a time and thereafter planning becomes difficult. Most Police forces' MTFPs show a cliff edge in 2 or 3 years but this cliff edge keeps getting pushed one year back every time there is a new one year settlement. There is growing, but cautious, optimism in the police sector given public sentiment that police funding cannot be reduced much further but with the Brexit issue, everything is still on the table. The uncertainty is having an impact on the sector's ability to plan in the long term.*

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 the following pages.

The text of our report, which confirms this can be found at Appendices E and F.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that both the PCC and Chief Constable had proper arrangements for securing economy, efficiency and effectiveness in their use of resources.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A.

We have considered progress made against the recommendations made in 2017/18 and this was reported to your March Joint Audit Committee. Where recommendations were still in progress, we have re-reported the issue and made a new recommendation. Therefore, there are no brought forward recommendations.

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 risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings and conclusion
<p>1 Devolution and new governance arrangements</p> <p>The Government signalled its intention in the Budget 2016 to explore the incorporation of the role and power of the Police and Crime Commissioner into the Mayoralty of the West Midlands Mayor.</p> <p>A consultation has taken place on the future leadership of West Midlands Police from 2020 to examine the principle of moving leadership of the police force from a directly elected Police and Crime Commissioner, to a Mayor. This would transfer the strategic leadership of the force, setting the budget and appointing and dismissing the Chief Constable amongst many other policing responsibilities.</p> <p>Should this proceed, this would result in significant changes in governance and accountability structures. In addition, it is not yet clear as to where the ownership rights and obligations for the assets and liabilities currently controlled by the PCC will lie, or how decisions currently taken by the PCC in respect of investment, borrowing and levels of reserves in the Police Fund will be made as the Mayor, unlike the PCC, is not a corporation sole. It will be key to ensure there is clarity over future governance and accountability arrangements, with a full and informed understanding of the implications and consequences of these new arrangements.</p>	<p>We have:</p> <ul style="list-style-type: none"> • Updated our understanding of the latest developments and outcomes from consultations • Reviewed emerging issues on the impact on governance, accountability and assurance arrangements • Assessed how well the impact of potential changes is understood by parties to the change, the extent to which risks are mitigated and the effectiveness of proposed arrangements in ensuring sound governance, accountability and transparent, joined-up decision making. <p>Findings</p> <p>The First Devolution Deal was agreed in November 2015, setting up the Mayoral Combined Authority and bringing new powers and funding to the West Midlands. Following the General Election in June 2017, the West Midlands Combined Authority (WMCA) initiated discussions with Government on a Second Devolution Deal, based on the proposals brought forward by the Devolution Strategy Group. The Deal set out that the Government, the Combined Authority and the Office of the Police and Crime Commissioner (PCC) would work together to incorporate the role and powers of the PCC into the mayoralty from 2020.</p> <p>The Government, the WMCA and the PCC considered a governance model and a legislative timetable for incorporating the role and power of the PCC into the mayoralty, with a view to electing the first Mayor with these powers in 2020. This was reported to the September 2018 WMCA Board. Feedback received from the constituent councils, the PCC and West Midlands Police (WMP) following circulation of the Scheme and Governance Review at September WMCA Board was reported to the November 2018 WMCA Board.</p> <p>Extensive consultation was undertaken with the public across the constituency areas and conclusions from this were reported to the March 2019 WMCA Board. At this meeting, the Board voted to not continue progression of the Devolution Deal, resulting in a decision that the PCC functions would not transfer to the Mayoral Combined Authority from May 2020.</p> <p>Conclusion</p> <p>With the decision to abandon the proposed devolution governance model, the risk in this area has been mitigated.</p>

Key findings

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

	Significant risk	Findings and Conclusion
2	<p>Financial strategy and long term sustainability</p> <p>West Midlands Police and Crime Commissioner and Chief Constable are planning to deliver ahead of budget for 2018/19. Future budgets remain challenging with further austerity reductions, increasing demand and costs and uncertainty around the financial settlement longer term and impact of pension cost increases.</p> <p>There is a balanced budget for 2019/20 and some risk around 2020/21 but beyond that the financial landscape remains uncertain. The Force is proposing to increase officer numbers to address demand and capacity issues which have arisen.</p> <p>A number of strands are being developed to deliver efficiencies and savings. An Income Generation Board has been established and the Force is currently assessing what additional capacity will be required to support delivery post AccentureUK Ltd when the transformation partnership finishes in July 2019. The Force and the PCC are also planning to deliver a significant estates rationalisation programme over the next few years.</p>	<p>We have:</p> <ul style="list-style-type: none"> • reviewed updates to your medium term financial strategy; • assessed the gaps in savings requirements and your plans to mitigate these risks; • assessed the extent to which your financial plans are aligned with realistic outcomes from the transformation programme and benefits realised; and • considered the reasonableness of assumptions underpinning the strategy. <p>Findings</p> <p>Medium term financial plan</p> <p>The Force produces a Medium Term Financial Plan (MTFP) annually, developed from May in the previous year ready for the following April. This is 'published' each September prior to the start of the financial year, following internal and PCC consultation over the summer. Developed from funding announcements in the spring and modelled as other information is confirmed, the preparation of this MTFP is a bottom up assessment of resources required, the start point being a roll forward of previous income and expenditure with inflationary adjustments. Finances are also shaped by the workforce plan, which sets a target of growth for Police Officers of 250 by 2020, bringing the total number of FTEs to 6,755. Each MTFP covers five financial years and drives the budget setting for the following February, agreed by the Strategic Police and Crime Board.</p> <p>The MTFP is underpinned by the Force's financial model. This is refreshed monthly for any changes agreed by the Organisational Change Board (OCB), primarily from updates to the WMP2020 programme with a change log maintained to validate and reconcile any changes. This 'live' financial model informs the financial reporting against the budget. The financial plan, or relevant elements of this, are shared widely amongst the Force Governance Boards and the PCC's office to drive accountability for financial delivery. There is formal quarterly reporting against the financial plan.</p> <p>Each project within the WMP2020 programme is designed to deliver financial and/or non-financial savings, monitored through a Project Board with the SROs being accountable to the OCB. The financial model and therefore the MTFP only reflects savings when they are cash-backed and there is a certainty over delivery, which is considered prudent. The OCB drives the identification of benefits, particularly the non-cashable or tangible savings, and holds SROs to account for their delivery. This is then periodically reported to the Force Executive Team and the PCC so there is oversight of these savings.</p> <p>During 2018/19 the Force refreshed its financial model and the monthly updates to drive greater links between financial delivery and the benefits realised from transformation and WMP2020. Extensive work has been undertaken to develop a detailed model which captures benefits at the start of the project and then tracks progress against these. This is supported by a suite of tools, including a Benefit Profile Template, Benefit Realisation Plan and Financial Tracker, which has strengthened the link between operational decisions and finance. Finance staff who maintain the financial model consider that this process makes it easier to update and obtain information at a greater depth to feed into the financial reporting. Quarterly benefit review meetings are now held to assess delivery of benefits against the project plans and Assistant Chief Constables have greater accountability for the delivery of savings. The Force is in the process of 're-baselining' each project against which benefits will be measured.</p>

Key findings

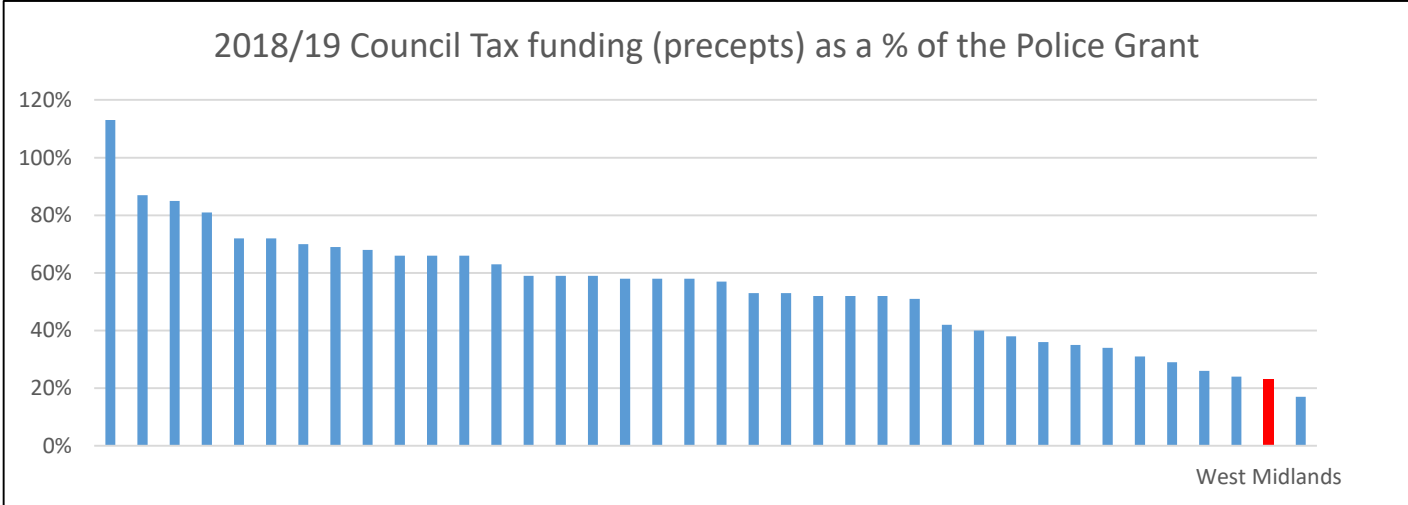
We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings and Conclusion
<p>2 Financial strategy and long term sustainability - continued</p>	<p>These measures will then be embedded into departmental performance management through departmental performance meetings and Quality Performance Reviews. Scheduled benefit reviews post project closure should ensure benefit delivery is maintained, progressed and realised.</p> <p>The Benefits Manager in Business Transformation has reported that there is an improvement in benefit delivery following the introduction of the suite of tools with clear ownership of benefits by the Project leads. The Assistant Chief Constable leads have sight of the collective benefits, any risks and emerging issues relating to benefit delivery within their portfolio to minimise loss of benefits. Non-cash-backed savings solely attributable to a project are captured within the project trackers which feed the MTFP. Any non-cash-backed savings 'reinvested' are updated in the productivity matrix for all departments as reinvestment of non-cashable benefits are cross project related (accumulation rather than one off). In the main, the reinvestment is not allocated against the individual benefit profile but crossed referenced in the narrative.</p> <p>Recommendation 1: The Force should ensure that non-cash backed savings 'reinvested' to offset demand pressures or other capacity issues are clearly captured and there is a transparency around how these are 'counted' against financial targets, avoiding under-reporting or duplication.</p> <p>Key assumptions within the 2019/20 MTFP being developed are reasonable.</p> <ul style="list-style-type: none"> • Levels of inflation appear in line with expectations • No further increases to pensions (contributions or lump sums) have been included which, at this stage, is reasonable given there is no certainty over the future funding position • Precept increases of £24 in 2019/20 and 2020/21, dropping back to £12 thereafter, providing additional reserves of £3.7 million <p>At the time of writing, it remains unclear as to whether additional pension funding will recur beyond the current year. There is also potential that the current Comprehensive Spending Review may be further delayed due to the potential change in government as a result of the Conservative party leadership contest, and the UK's departure from the European Union.</p> <p>Overall the MTFP is based on reasonable assumptions. Where there is uncertainty, the MTFP seeks to mitigate this by taking a prudent position. However, when faced with significant uncertainties, traditional top down MTFP budgeting arrangements become less effective in securing value for money over the long term. In recent years parts of the sector have been able to secure a better than expected funding position. Whilst this has been very welcome it has resulted in unanticipated funds being available for use, often late or at the end of the financial planning process. It is important that financial planning arrangements include elements of scenario planning, in particular about the potential upside and downside risks to funding. This includes considering not only what the potential funding envelope might be in a given scenario, but also what the potential response might be in terms of investments and/or savings. This enhanced scenario planning may support you in responding to the current uncertainty about future funding with some cautious optimism. It may also help to provide a framework to deal with situations where additional funds are made available, and help the organisation as it shifts from the question of "how many officers can we afford?" to a business led by the question "how many officers do we need?"</p> <p>Recommendation 2: It is important you continue to strengthen scenario planning arrangements in light of the future funding uncertainties. Scenario planning arrangements should include plans for 'better than expected' which should be supported by a pipeline of investment projects that can be prioritised as and when funds are available.</p>

Key findings

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

Significant risk	Findings and Conclusion
<p>2 Financial strategy and long term sustainability - continued</p>	<p>Your ability to raise Council Tax income is limited by the Council Tax base in the region which you serve. This has meant that despite applying the maximum increase in each of the recent years, you remain one of the police forces nationally with the lowest precept to grant income ratio, as illustrated by the graph below:</p>



As such, the availability of central government funding is of higher importance to you than it may be to other Forces. The police finance settlement was confirmed in January 2019 and represented the first increase in central government funding available to police forces since the beginning of austerity in 2010.

Gaps in savings requirements and mitigations

As part of the MTFP preparation key risks and opportunities have been identified and presented to the various stakeholders. These include:

- | | |
|--|--|
| <p><i>Risks</i></p> <ul style="list-style-type: none"> • Funding for short term grants – decision will need to be made if funding ceases • Further costs pressures around the pension liability • Projects are delayed and benefits are not realised. • Short spending review does not give us a long-term certainty • Increasing land costs for the Estate projects • Inflationary increases are greater than assumed | <p><i>Opportunities</i></p> <ul style="list-style-type: none"> • Investment opportunities • Further efficiencies • Greater Precept flexibility • Income generation initiatives |
|--|--|

Key findings

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

Significant risk	Findings and Conclusion
<p>2 Financial strategy and long term sustainability - continued</p>	<p>Workforce and demand remain the most difficult elements to forecast. Planned recruitment numbers appear reasonable but ensuring the people pipeline mirrors the plan will be difficult, particularly balanced against attrition. Demand is a significant driver for the workforce strategy which has been skewed by increased activity in Counter-Terrorism, Violent Crime Prevention initiatives and the Commonwealth Games policing requirements. Force Support and the New Ways of Working agenda are continuing to support response times and allowing local policing to remain focused on the prevention agenda. Whilst the Target Operating Model continues to cope, there is a significant pressure on officers and staff which has been recognised by senior officers. Balancing the limited staffing resources against growth in demand and staffing capacity will be a key challenge. Senior officers are assessing how best to use the limited officer resources to deliver the wider Policing agenda.</p> <p>The Force continues to deliver the significant estates strategy which has many variables in relation to the outcome, timing and financial implications. There is greater certainty this year around capital receipts and their reinvestment which has supported the accuracy of the forecasting and is reflected in the financial model and reserves strategy. The capital programme going forward largely focuses on delivering the Estates Strategy. The main sources of funding will be capital receipts and borrowing.</p> <p>Reserves strategy</p> <p>WMP2020 has required a planned use of reserves to create efficiencies, either through direct cost-savings or increased capacity to enable the Force to deliver more for less. Further use of reserves is planned with £23.5 million being utilised in 2019/20. Beyond this, the Reserves Strategy published in March 2019 indicates that the Force will be in balance. It is therefore critical that transformation progress is aligned with both the MTFP and Reserves Strategy to identify any unexpected budgetary gaps. Delays to the transformation programme, the realisation of benefits, or reduction in the value of benefits realised could have an impact on the long term financial sustainability of the organisation.</p> <p>General Fund reserves as at 31 March 2019 were £12.042 million, held at the same level as at 31 March 2018 and 2017 and in line with the Reserves Strategy. This represents a General Fund of approximately 1.6% of gross expenditure. The Budget and Change Programme Reserves usage is intended to support organisational transformation rather than supporting 'business as usual' in the long term. Delays or reductions in the realisation of benefits, if these arise over the MTFP, will therefore need to be considered in revised reserves strategies. It is important that the reserves strategy and MTFP align with the future vision of the organisation as set out through wider business planning.</p> <p>The Force has prioritised the revision of the MTFP and refresh of planning assumptions in the first quarter of 2019/20, which includes the potential effect on reserves. The impact of this will be a revised Reserves Strategy, which will be produced by the end of Quarter 2.</p> <p>Grant Thornton insight – Resilience in the sector has stabilised, general reserves have remained steady from 2018 positions and in some areas increased. However, there are massive reductions from the 2015 position with overall sector reserves dropping from £1.9bn to £1.3bn. The average level of reserves to GRE, at 9%, is a significant drop from the average in 2015 (16%) and significantly below the level of reserves held by councils on average.</p>

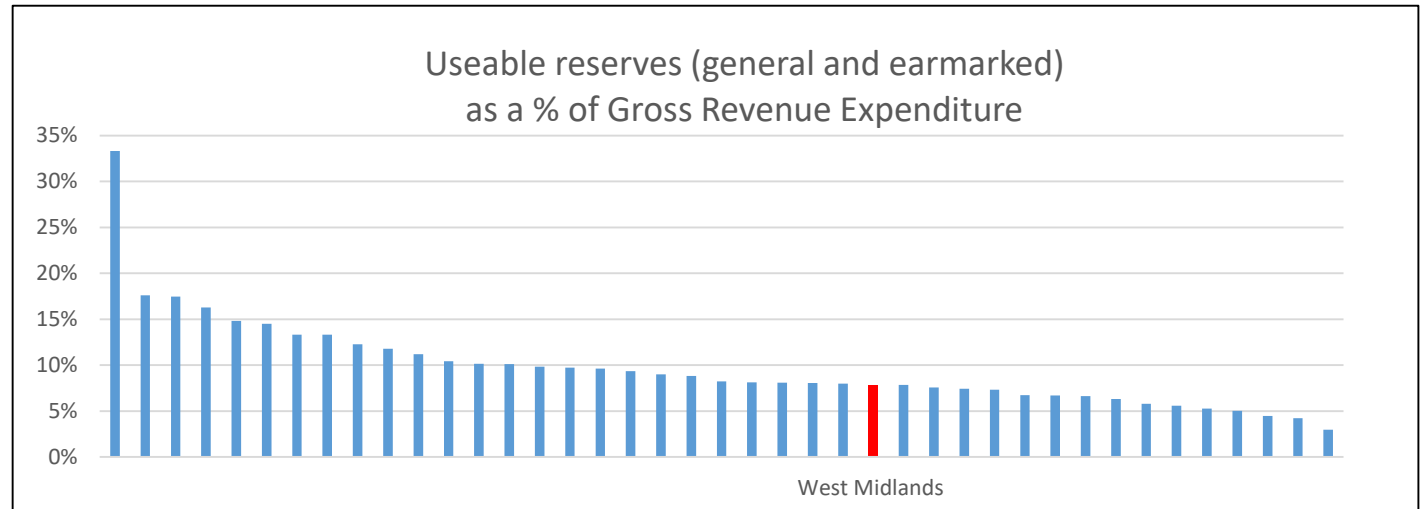
Key findings

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

Significant risk

Findings and Conclusion

2 Financial strategy and long term sustainability – continued



Recommendation 3: As the Reserves Strategy’s stated aim is to support the transformation programme, the timescales for anticipated delivery of transformation and benefits should be included within the strategy, aligned with the timescales for the use of reserves. Any slippage, or reduction, in benefits realisation should be factored into the planned use of reserves in the annual updates to the Reserves Strategy, along with mitigating actions. The strategy should be clear that reserves will not be used to support ‘business as usual’ on a long term basis.

Realising benefits

The PCC has recently requested a report from the Force on the benefits realised from WMP2020. This identified that:

- as at March 2018, WMP2020 had generated £51.8 million in cashable and non-cashable benefits which the Force has been able to reinvest in major infrastructure modernisation projects and use to protect 6505 police officer posts and 464 PCSO posts.
- ongoing improvements to processes, systems and technology are projected to deliver productivity savings equal to 625 full time officers across the Force, as projected in the business cases.

Key findings

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

Significant risk	Findings and Conclusion
<p>2 Financial strategy and long term sustainability - continued</p>	<p>It is recognised that efficiencies and savings have been delivered through a number of projects which include:</p> <ul style="list-style-type: none"> • streamlining investigations • the digital experience for citizens • answering and responding to calls for service • neighbourhood policing • back office efficiencies • mobility devices and apps • body worn video • modernising of the estate <p>There are also further future efficiencies being identified through Data Driven Insights and the modernisation of the Command and Control system.</p> <p>Measuring non-cashable benefits is difficult and can be masked by reinvestment of spare capacity and the unplanned increase in demand which has resulted in a 'reabsorption' of some benefits. There continues to be a delay in the delivery of non-cashable savings as projects take time to embed and/or further training needs are identified. This is not unexpected for a transformation programme of this scale. However, the Force has been proactive in focusing on delivering the benefits and continuing to drive culture change. The Force has also made improvements to the way it defines, articulates and measures benefits for each project. We have noted the ongoing work of the WMP2020 programme team who have developed a revised benefit realisation plan (BRP) and reporting/tracking of benefits through governance. These arrangements went 'live' from September 2018; focusing on outcomes rather than reduced inputs, these will drive the 'harder to achieve' benefits from the projects.</p> <p>Many benefits identified focus on a measure of the better use of internal resource, e.g. reduced costs, reduced staffing, increased efficiency etc. However, benefits also need to be focused on outcomes rather than inputs. This is being developed but is still in its early stages. Early identification and agreed measurement of benefits across all projects will help to change the focus to outcomes and impact for the end user which is being driven by the Benefits Realisation Plan and Benefits Tracker, reported to the quarterly benefit review meetings. This builds on the points we raised in our previous work regarding the risk of the erosion of benefits and the importance of effective benefits realisation to ensure the benefits of the transformation 'pain' are delivered. This is particularly the case with the non-cashable savings / productivity savings, where capacity and productivity generated from the transformation is easily lost within the organisation without a clear plan to capture and focus this capacity to maximum effect elsewhere.</p> <p>During 2018/19 the Force appointed an Income Generation Officer whose remit is to maximise the income that the Force can achieve by progressing a number of work streams, including charging for services and sponsorship. An income target has been set for 2019/20 and the Force is confident that the work to date will achieve this. This is a noticeable shift from reducing costs and making further savings, to maximising income opportunities. This should further support the overall financial resilience of the Force going forward.</p> <p>Conclusion</p> <p>We are satisfied from the work performed that sufficient arrangements are in place, and were in place during 2018/19, to mitigate the risk identified.</p>

Key findings

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

	Significant risk	Findings and Conclusion
3	Risk Management	<p>We have:</p> <ul style="list-style-type: none"> • reviewed the risk registers reported to the Joint Audit Committee and consider the overall messages they are presenting to Members; • assessed the level of challenge from Members to the risk profile presented within the risk registers; • considered whether mitigations reported are appropriate and proportionate to the risks; • considered how the risk profile drives the Joint Audit Committee agenda, both in relation to focus, time and resource; and • assessed how ongoing risk identification and horizon scanning helps to manage and mitigate risks in future years. <p>Findings</p> <p>Risk management is a crucial and fundamental process within any organisation. Given the nature of policing, when things go wrong there can be serious consequences which may threaten life or pose a threat to officer or public safety. The Office of the Police and Crime Commissioner (PCC) and the Force have separate risk registers and separate governance processes for compiling and managing their registers. This is not unusual within the Policing sector as the objectives of both bodies are different and, therefore, the risks to deliver these objectives will be different.</p> <p>We have previously reported that there should be greater alignment between these two documents to ensure that those having oversight of the business and allocation of resources, can direct limited resources to the areas of most need. It would also support the prioritisation of Internal Audit work and the agenda for the Joint Audit Committee. During 2018/19 the PCC and the Force have revised the reporting templates for their Corporate Risk Registers, using a model similar to that used by the Metropolitan Police Service, setting out the risk, the key controls and the activity (the mitigating actions in place). This has meant that there is greater similarity between the two documents.</p> <p>We have reviewed both documents and the process for driving risks to a corporate level.</p> <ul style="list-style-type: none"> • The approach to risk management in the PCC's Office is based on the delivery of the Police and Crime Plan and the risk register reflects this approach. The register also incorporates new risks that have arisen since the police and crime plan was introduced. The risk register is reviewed by the senior management team of the PCC's office on a regular basis, prior to being reported to the Joint Audit Committee. • For the Chief Constable, there is a new Force Governance Structure in place for 2018/19. This uses thematic and portfolio boards to filter risks and determine whether they are reported to the Risk and Organisational Learning Board chaired by the Deputy Chief Constable. At that point, the risk is deemed operational or corporate and is then escalated and managed appropriately. Corporate risks are reported through the Corporate Risk Register and are reported at the Joint Audit Committee.

Key findings

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

Significant risk	Findings and Conclusion
3 Risk Management – continued	<p>Review of the summary registers detailing the top 12 risks for both the PCC and the Force has identified that, as expected, there is limited overlap due to the differing objectives. The themes within the registers are similar, focusing on finance, workforce, partnership working and operational matters. There is also evidence of future risks being identified and reported. As the PCC holds the Chief Constable to account, the description of comparable risks is not the same, but the broad controls and activity have similarities. These are considered to be proportionate to the level of risk identified. There is only one risk which is within both registers, relating to finance, which highlights that there is a risk that:</p> <ul style="list-style-type: none"> • resources are insufficient to meet the priorities of the Police and Crime Plan – PCC (risk score 16); • the current flat cash police settlement means that there are still savings required, but that lifting the public sector pay cap with no additional funding creates additional budgetary pressure and the change to pension arrangements creates further uncertainty – Chief Constable (risk score 6.9). <p>The differentiation in scoring for comparable risks has identified that both risk registers are utilising different scoring methodologies. Having significant variances between similar risks makes it challenging for overview functions (Joint Audit Committee, Internal Audit) to assess how much attention or focus should be brought to these issues. There is training programmed for the Autumn to enable Members of the Joint Audit Committee to better understand the risk scoring used within the Force.</p> <p>Recommendation 4: The scoring methodologies for both the PCC and the Chief Constable should be aligned to ensure that there is clarity over the impact and likelihood assessment made by each body.</p> <p>Examination of the activity within the risk registers by the Joint Audit Committee has evidenced challenge throughout the year. This has increased since the formats have been better aligned. The Members of the Joint Audit Committee also identified that there was limited opportunity for responses from other action plans, for example HMICFRS reports, to feed into this assessment. There is recognition of HMICFRS risks within the Vulnerability section of the Corporate Risk Register which captures much of this at a higher level and whilst this is not explicit, there is a link between the two processes.</p> <p>Whilst the two risk registers detail the risks identified and managed by the PCC and the Force, the WMP2020 risks are managed through a separate process which is not reported through these two registers. This results in the Joint Audit Committee not receiving a comprehensive overview of the risks facing the two corporate bodies. This is partially mitigated by the fact that the Deputy Chief Constable is a member of both the Organisational Change Board and Risk and Organisational Learning Board (including Business Transformational who manage WMP2020) and so would be able to raise and report significant WMP2020 risks to the Risk and Organisational Learning Board, enabling them to feed into the Force's corporate risk register. An example of this is the significant IT system changes which are primarily delivered through WMP2020 but have also been documented within the Force's corporate risk register.</p> <p>Conclusion</p> <p>We are satisfied from the work performed that sufficient arrangements are in place, and were in place during 2018/19, to mitigate the risk identified.</p>

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 four recommendations for the PCC and Chief Constable 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 2019/20 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	Relevant to	Recommendations
1 ●	Any non-cash-backed savings 'reinvested' are updated in the productivity matrix for all departments as reinvestment of non-cashable benefits are cross project related (accumulation rather than one off). In the main, the reinvestment is not allocated against the individual benefit profile but crossed referenced in the narrative.	Chief Constable	<p>The Force should ensure that non-cash backed savings 'reinvested' to offset demand pressures or other capacity issues are clearly captured and there is a transparency around how these are 'counted' against financial targets, avoiding under-reporting or duplication.</p> <p>Management response</p> <p>To be provided and reported to the next Joint Audit Committee.</p>
2 ●	It is important that financial planning arrangements include elements of scenario planning, in particular about the potential upside and downside risks to funding. This includes considering not only what the potential funding envelope might be in a given scenario, but also what the potential response might be in terms of investments and/or savings.	Chief Constable	<p>It is important you continue to strengthen scenario planning arrangements in light of the future funding uncertainties. Scenario planning arrangements should include plans for 'better than expected' which should be supported by a pipeline of investment projects that can be prioritised as and when funds are available.</p> <p>Management response</p> <p>To be provided and reported to the next Joint Audit Committee.</p>
3 ●	The Force has prioritised the revision of the MTFP and refresh of planning assumptions in the first quarter of 2019/20, which includes the potential effect on reserves. The impact of this will be a revised Reserves Strategy, which will be produced by the end of Quarter 2.	Both	<p>As the Reserves Strategy's stated aim is to support the transformation programme, the timescales for anticipated delivery of transformation and benefits should be included within the strategy, aligned with the timescales for the use of reserves. Any slippage, or reduction, in benefits realisation should be factored into the planned use of reserves in the annual updates to the Reserves Strategy, along with mitigating actions. The strategy should be clear that reserves will not be used to support 'business as usual' on a long term basis.</p> <p>Management response</p> <p>To be provided and reported to the next Joint Audit Committee.</p>

Controls

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

Action plan

We have identified four recommendations for the PCC and Chief Constable 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 2019/20 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	Relevant to	Recommendations
4 ●	The differentiation in scoring for comparable risks has identified that both risk registers are utilising different scoring methodologies. Having significant variances between similar risks makes it challenging for overview functions (Joint Audit Committee, Internal Audit) to assess how much attention or focus should be brought to these issues. There is training programmed for the Autumn to enable Members of the Joint Audit Committee to better understand the risk scoring used within the Force.	Both	<p>The scoring methodologies for both the PCC and the Chief Constable should be aligned to ensure that there is clarity over the impact and likelihood assessment made by each body.</p> <p>Management response</p> <p>To be provided and reported to the next Joint Audit Committee.</p>
5 ●	The current fixed asset register does not allow the extraction of information to support the split of the revaluation reserve and the amount taken to the surplus/(deficit). This results in difficulty complying with the Code, but also for unwinding any future upward revaluations where there has been a charge to the CIES which should be unwound.		<p>As a general housekeeping exercise, assess the historic information for each asset as to whether previous revaluations have been taken to the revaluation reserve in total or charged to the CIES.</p> <p>Management response</p> <p>To be provided and reported to the next Joint Audit Committee.</p>

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

Follow up of prior year recommendations

We identified a number of recommendations in the audit of the West Midlands PCC and Chief Constable's 2017/18 financial statements and value for money conclusion work. We have followed up progress against these recommendations which was reported to the March 2019 Joint Audit Committee. Therefore, we are not reporting against last year's recommendations in this report. Where recommendations are still in progress we have assessed as part of the 2018/19 work and have re-recommended these where appropriate.

Audit Adjustments - PCC and Group

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1 McCloud Ruling As a result of the McCloud ruling, CIES - Policing Services & PCC expenditure has increased by £0.85 million for the PCC, and £347.7 million for the group as a whole with the corresponding increases to the long term pensions liability.	Dr 347,682	Cr (347,682)	Dr 347,682
Overall impact	£347,682	(£347,682)	£347,682

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 area	Detail	Auditor recommendations	Adjusted?
Contingent Liabilities/Events after the balance sheet date	<ul style="list-style-type: none"> McCloud judgement ruling issued meaning that this should no longer be classed as a contingent liability 	<ul style="list-style-type: none"> This should now be disclosed as a post balance sheet event Management response <ul style="list-style-type: none"> Adjusted 	✓

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 area	Detail	Auditor recommendations	Adjusted?
Group Balance sheet - Cash and Cash equivalents	Overdraft of £1.405 million was offset against cash and cash equivalents of £8.437 million and disclosed net. This was not compliant with the Code.	<ul style="list-style-type: none"> Overdraft should be separately disclosed on the balance sheet as a liability. <p>Management response</p> <ul style="list-style-type: none"> Overdraft has been separately disclosed. 	✓
Group CIES - Other operating income	The pension top up is non-specific, and therefore it should be included in the line taxation and non-specific grant income.	<ul style="list-style-type: none"> The pension top up grant should be disclosed on the CIES under taxation and non-specific grant income <p>Management response</p> <ul style="list-style-type: none"> The pension top up grant has now been disclosed on the CIES under taxation and non-specific grant income 	✓

Audit Adjustments – PCC and Group

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Joint Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
<p>1 Understatement of Operating Expenditure An error was noted during testing of a sample of operating expenditure items. An error in the prior year was identified relating to maintenance contract from August 2017 to August 2018. Finance had identified the error and posted a correction, but this was found to be inaccurate and resulted in an understatement of the current year expenditure, and overstatement of the prior year expenditure of £5,410. When extrapolated over the sampled population, this provides an uncertainty over £1.089 million.</p>	Cr (1,089)	0	Cr (1,089)	Management do not consider it is appropriate to adjust due the estimated nature of this misstatement.
<p>2 Creditors Seized cash was reported on the balance sheet at £2.6 million. Management should consider whether it is fair for this balance to be recognised as a creditor in its entirety, rather than as a provision or a contingent liability.</p>	0	Dr 2,600 (creditors) Cr (2,600) (provisions)	0	Management do not consider it is appropriate to adjust due the estimated nature of this misstatement.
Overall impact	£1,089	£0	(£1,089)	

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2017/18 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
<p>1 Prepayments and Accruals An error was noted during testing of a sample of debtors items. We estimate that, if this error rate were consistent across the full population this would give an overstatement of debtors and creditors with the following impact:</p>	0	Dr 700 (accruals) Cr 700 (prepayments)	0	Management did not consider it was appropriate to adjust due the estimated nature of this misstatement. We have not identified any issues in our 2018/19 debtors testing.
<p>2 Creditors During the other creditor accruals testing, we identified an item where expenditure recognition had been duplicated . We estimate that, if this error rate were consistent across the full population this would give an £1,351,040. When the balance was brought over from 11i, the change from expenditure recognition on invoice to receipt was not rectified.</p>	Cr (1,351)	Dr 1,351	Cr (1,351)	Management were satisfied that the finance team have carried out an extensive exercise to ensure that duplicated expenditure recognition does not have a material impact upon the financial statements and are not adjusting for this error. This has not been identified as an issue for 2018/19 as the duplications have been removed.
<p>3 Creditors Seized cash was reported on the balance sheet at £3,200. Management should consider whether it is fair for this balance to be recognised as a creditor in its entirety, rather than as a provision or a contingent liability.</p>	0	Dr 3,200 (creditors) Cr (3,200) (provisions)	0	Management did not consider it was appropriate to adjust. Management are working to reduce this outstanding balance, therefore this would not present a material issue in 2018/19. The balance in 2018/19 is £2.6 million and is reported as an uncertainty.
<p>4 Pensions benefits payments Lump sum payments. During testing of lump sum payments, we identified an error in the calculation of an individual's pension. We estimate that, if this error rate were consistent across the full population this would give a maximum projected understatement: £2,042,551. N.B. this also impacts the recurrent payments, see below.</p>	Dr 2,043	0	Dr 2,043	Management did not consider it was appropriate to adjust due the estimated nature of this misstatement. We have not identified any issues in our 2018/19 pension lump sum testing.

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2017/18 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
5 Pensions Benefits payments Recurrent payments Maximum projected understatement: £1,233,221. An error was identified in the calculation of the lump sum and recurrent payment provided to one individual. As a result of this, we calculated that if similar errors had been made in the population the maximum error would have been £1.2 million.	Dr 1,233	0	Dr 1,233	Management did not consider it was appropriate to adjust due the estimated nature of this misstatement. We have not identified any issues in our 2018/19 pension lump sum and recurrent payment testing.
Overall impact	£1,925	£1,351	£1,925	

Audit Adjustments – Chief Constable

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1 McCloud Ruling As a result of the McCloud ruling, CIES – Financial Resources Consumed has increased by £347,597k with the corresponding increases to the long term pensions liability.	Dr 347,597	Cr 347,597	Dr 347,597
2 Note 8 – Other Comprehensive Income & Expenditure. The draft accounts did not include a balance of £26 million within the Other Comprehensive Income & Expenditure resulting in it not reconciling to the CIES.	0	0	This was an oversight in compiling the financial statements and has been amended for within this disclosure note.
Overall impact	£ 347,597	£ 347,597	£ 347,597

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have management has agreed to amend in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjustment agreed?
Police Pension Schemes	Longevity assumption females current pensioners is noted in note 17 as 24.6 rather than 24.3 as per IAS 19 report from GAD. This was an error in assembly of accounts. This was a typographical error in the narrative of the assumptions table when the accounts were prepared.	<ul style="list-style-type: none"> An amendment was requested. Management response <ul style="list-style-type: none"> Adjusted 	✓
CIES - Other operating income	The pension top up is not received as grant income by the Chief Constable, but as income from the PCC and as such should be shown in Other Operating Income.	<ul style="list-style-type: none"> The pension top up grant should be disclosed on the CIES under Other Operating Income Management response <ul style="list-style-type: none"> The pension top up grant has now been disclosed on the CIES under Other Operating Income 	✓
CIES	<ul style="list-style-type: none"> Casting error in the 201819 Gross income column, (Surplus deficit on provision of services). Should have cast to £751,345, did cast to £751,375. 	<ul style="list-style-type: none"> Figures be adjusted to cast correctly Management response <ul style="list-style-type: none"> Adjusted 	✓

Audit Adjustments – Chief Constable

Impact of prior year unadjusted misstatements

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of unadjusted misstatements

No adjustments to the Chief Constable's accounts have been identified during the audit process..

Fees

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

Audit Fees	£
PCC Audit – 2018/19 fee proposed per fee letter	32,623
PCC Audit – 2018/19 final fee	£32,623
<i>PCC Audit – 2017/18 final fee</i>	£49,896
CC Audit – 2018/19 fee proposed per fee letter	17,325
Fee variation	
Pensions and PPE valuation - The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 and PPE valuations needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 and PPE valuations this year.	2,000
Assessing the impact of the McCloud ruling - The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December and the Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have carried out additional work considering the impact on the financial statements along with any audit reporting requirements.	2,500
CC Audit – 2018/19 final fee	£21,825
<i>CC Audit – 2017/18 final fee</i>	£47,544
Total Audit fee 2018/19 proposed per fee letter	£49,948
Total Audit fee 2018/19 final fee	£54,448

The proposed audit fee per the fee letter is included within the 2018/19 financial statements. Any additional fees will be shown as audit expenditure in the 2019/20 financial statements.

Last year the audit fee for both the PCC and the Chief Constable each included an amount of £7,528 as a result of additional work undertaken to provide the opinion. This was agreed with Management and is shown in the 2018/19 financial statements along with £17,516 of additional fee relating to 2016/17 value for money work which was billed in 2017/18.

The proposed fee variation for 2018/19 has not yet been discussed with the Chief Financial Officers and is subject to approval by PSAA

Audit opinion

We anticipate we will provide the PCC with an unmodified audit report

Independent auditor's report to the Police and Crime Commissioner for West Midlands Police

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Police and Crime Commissioner for West Midlands Police (the 'Police and Crime Commissioner') and its subsidiary the Chief Constable (the 'group') for the year ended 31 March 2019 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies, and include the police pension fund financial statements comprising the [Fund Account, the Net Assets Statement] and notes to the financial statements. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Police and Crime Commissioner as at 31 March 2019 and of the group's expenditure and income and the Police and Crime Commissioner's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Police and Crime Commissioner in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We

believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the [Chief Financial Officer]'s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the [Chief Financial Officer] has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Police and Crime Commissioner's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement, other than the Police and Crime Commissioner and group financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and the Police and Crime Commissioner obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Audit opinion

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Police and Crime Commissioner gained through our work in relation to the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, [the Narrative Report, the Annual Governance Statement and the Annual Report] for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Police and Crime Commissioner under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Police and Crime Commissioner and the Chief Finance Officer for the financial statements

As explained more fully in the Statement of Responsibilities set out on page(s) x to x, the Police and Crime Commissioner is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. That officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the group's and the Police and Crime Commissioner's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the group or the Police and Crime Commissioner will no longer be provided.

The Police and Crime Commissioner is Those Charged with Governance. Those charged with governance are responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Audit opinion

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Police and Crime Commissioner put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Responsibilities of the Police and Crime Commissioner

The Police and Crime Commissioner is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Police and Crime Commissioner has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Police and Crime Commissioner 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 Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Police and Crime Commissioner put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Police and Crime Commissioner has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the West Midlands Police and Crime Commissioner and Chief Constable for the year ended 31 March 2019. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Use of our report

This report is made solely to the Police and Crime Commissioner, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Police and Crime Commissioner those matters we are required to state to the Police and Crime Commissioner in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Police and Crime Commissioner as a body, for our audit work, for this report, or for the opinions we have formed.

Paul D Grady Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Audit opinion

We anticipate we will provide the Chief Constable with an unmodified audit report

Independent auditor's report to the Chief Constable for West Midlands Police Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Chief Constable for [name of police force] (the 'Chief Constable') for the year ended 31 March 2019 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies, and include the police pension fund financial statements comprising the [Fund Account, the Net Assets Statement] and notes to the financial statements. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Chief Constable as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Chief Constable in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Chief Constable's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement, other than the financial statements and, our auditor's report thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Chief Constable obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the

Audit opinion

'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Chief Constable gained through our work in relation to the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Chief Constable under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Chief Constable and the Chief Finance Officer for the financial statements

As explained more fully in the Statement of Responsibilities set out on page(s) x to x, the Chief Constable is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. That officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Chief Constable's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Chief Constable will no longer be provided.

The Chief Constable is Those Charged with Governance. Those charged with governance are responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Audit opinion

Report on other legal and regulatory requirements - Conclusion on the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Chief Constable put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Responsibilities of the Chief Constable

The Chief Constable is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Chief Constable has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Chief Constable 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 Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Chief Constable put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Chief Constable has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the West Midlands Police and Crime Commissioner and Chief Constable for the year ended 31 March 2019. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Use of our report

This report is made solely to the Chief Constable, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Chief Constable those matters we are required to state to the Chief Constable in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Chief Constable as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Paul Grady, Director
for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

[Date]



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