



# The Annual Audit Letter for The Police and Crime Commissioner for the West Midlands and the Chief Constable for the West Midlands

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Year ended 31 March 2019



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# Executive Summary

### Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out for the West Midlands Police and Crime Commissioner ('the PCC') and West Midlands Chief Constable and the financial statements of the group, the PCC and the Chief Constable for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the PCC and the Chief Constable and their external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the PCC and the Chief Constable (as those charged with governance) in meetings which took place in July 2019

### Our work

<b>Materiality</b>	We determined materiality for the audit of the PCC and Chief Constable's financial statements to be £13,177,000, which is 2% of the PCC's gross revenue expenditure. This was the lowest materiality of the Group, PCC and Chief Constable's financial statements.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the PCC and Chief Constable's financial statements on 2 <sup>nd</sup> August 2019.
<b>Whole of Government Accounts (WGA)</b>	Our work on the PCC and Chief Constable's consolidation return, following guidance issued by the NAO, is ongoing as at the date of writing this letter. This work necessarily takes place following the completion of the financial statements audit.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.
<b>Value for Money arrangements</b>	We were satisfied that the PCC and Chief Constable had put in place proper arrangements to ensure economy, efficiency and effectiveness in their use of resources. We reflected this in our audit opinions issued on 2 <sup>nd</sup> August 2019.
<b>Certificate</b>	We plan to certify that we have completed the audit of the accounts of the PCC and the Chief Constable in accordance with the requirements of the Code of Audit Practice after we have finalised our work on the whole of government consolidation work.

We would like to take this opportunity to record our appreciation for the assistance provided by management, the finance team and other officers in both the office of the PCC and the police force during our audits.

### Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the PCC and Chief Constable's financial statements (section two)
- assess the PCC and the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the PCC and Chief Constable's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

**Grant Thornton UK LLP**  
**August 2019**

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# Audit of the Financial Statements

## Our audit approach

### Materiality

In our audit of the PCC and Chief Constable's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the PCC and the Chief Constable's group financial statements to be £13,177,000, which is 2% of the PCC's gross revenue expenditure. We used this benchmark as, in our view, users of the PCC and Chief Constable's financial statements are most interested in where the PCC and Chief Constable have spent their revenue in the year.

We did not set a lower level of specific materiality for any other balances.

We set a lower threshold of £659,000, above which we reported errors to the PCC and Chief Constable in our Audit Findings Report.

### The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts and the narrative report and annual governance statement published within the Statement of Accounts to check they are consistent with our understanding of the PCC and Chief Constable and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the PCC and Chief Constable's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the Financial Statements

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk and Findings	Conclusions
<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The 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>	<p>We :</p> <ul style="list-style-type: none"> <li>evaluated the design effectiveness of management controls over journals;</li> <li>gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness;</li> <li>obtained a full listing of journal entries, identified unusual journals and are finalising our testing of unusual journal entries for appropriateness;</li> <li>evaluated the rationale for any changes in accounting policies or significant unusual transactions</li> </ul>	<p>Our audit work did not identify any material issues in respect of management override of controls.</p>
<p><b>The revenue cycle includes fraudulent transactions (rebutted)</b></p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</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>	<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"> <li>there is little incentive to manipulate revenue recognition;</li> <li>opportunities to manipulate revenue recognition are very limited;</li> <li>the culture and ethical frameworks of police bodies, including the West Midlands PCC, mean that all forms of fraud are seen as unacceptable.</li> </ul> <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>We did not consider this to be a significant risk for either the PCC or the chief constable.</p>

# Audit of the Financial Statements

## Significant Audit Risks – continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk and Findings	Conclusions
<p><b>Valuation of property, plant and equipment</b></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>	<p>We :</p> <ul style="list-style-type: none"> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert;</li> <li>challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;</li> <li>challenged management on their assessment that for assets valued as at 31 December 2018, the current value is not materially different from the carrying value. The supporting information provided by the valuer used a materiality level significantly above our materiality level. We have therefore undertaken additional audit analysis and work to confirm that the current value as at 31 March 2019 is not materially different from the carrying value;</li> <li>tested revaluations made during the year to see if they had been input correctly into the Group and PCC asset register;</li> <li>evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different from current value at year end.</li> </ul>	<p>Our audit work did not identify any material issues in respect of this risk.</p>

# Audit of the Financial Statements

## Significant Audit Risks – continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk and Findings	Conclusions
<p><b>Valuation of pension fund net liability</b></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>	<p>We :</p> <ul style="list-style-type: none"> <li>• identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement;</li> <li>• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary’s work;</li> <li>• 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;</li> <li>• undertook procedures to confirm the reasonableness of the actuarial assumptions made;</li> <li>• 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.</li> <li>• undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor’s expert) and performing any additional procedures suggested within the report</li> <li>• undertook procedures to assess the impact of the McCloud judgement upon the financial statements.</li> <li>• obtained 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.</li> <li>• confirmed that the revised figures had been appropriately processed through the financial statements.</li> </ul> <p style="text-align: right;"><i>continued.....</i></p>	<p>Our audit work did not identify any material issues in respect of this risk, following the material amendments made to the accounts.</p>

# Audit of the Financial Statements

## Significant Audit Risks – continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk and Findings	Conclusions
<p><b>Valuation of pension fund net liability – continued</b></p>	<p><b><u>Impact of McCloud / Sargeant</u></b></p> <p>At the time the accounts were prepared there was significant uncertainty about whether the Government would have leave to appeal to the Supreme Court following the Court of Appeal's decision in the McCloud case concerning age discrimination in pension schemes. There were significant developments with this national issue during the course of our audit. In late June the Government was refused leave to appeal to the Supreme Court, which meant that the impact on local authorities pension liabilities became more certain.</p> <p>The PCC and the Chief Constable commissioned updated actuarial assessments to consider the impact of the McCloud court ruling on pensions liabilities. As a result the net pension liability increased. This had no impact on useable reserves.</p> <p>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 resulted in a £347.7 million adjustment to the CIES.</p> <p>Amendments to the financial statements to reflect the revised liability and service cost figures provided by the actuaries 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.</p> <p>In addition, an additional disclosure note was 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.</p> <p style="text-align: right;"><i>continued.....</i></p>	<p>Our audit work did not identify any material issues in respect of this risk, following the material amendments made to the accounts.</p>



# Audit of the Financial Statements

## Significant Audit Risks – continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk and Findings	Conclusions
<b>Valuation of pension fund net liability – continued</b>	<p><b><u>Impact of Guaranteed Minimum Pension (GMP) equalisation ruling</u></b></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>	Our audit work did not identify any material issues in respect of this risk, following the material amendments made to the accounts.

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# Audit of the Financial Statements

## **Audit opinion**

We gave an unqualified opinion on the PCC, Group and the Chief Constable's financial statements on 2<sup>nd</sup> August 2019.

## **Preparation of the financial statements**

The PCC and Chief Constable presented us with draft group accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

After the production of the financial statements, the Government was refused leave to appeal, which meant that the impact on local authorities pension liabilities from the McCloud case required revised figures to be obtained from the actuary. We worked closely with the finance team to understand these revised figures and undertook additional procedures due to the significant changes proposed. We also undertook more detailed work around the asset valuations and general pensions liabilities due to their size and the level of estimation uncertainty. All of these risks incurred additional fees.

## **Issues arising from the audit of the financial statements**

We reported the key issues from our audit to the PCC and Chief Constable as those charged with governance on 25 July 2019 and 2 August 2019.

## **Annual Governance Statement and Narrative Report**

We are required to review the PCC and the Chief Constable's Annual Governance Statement (AGS) and Narrative Report. It published them on its website within the draft accounts following the issue of our audit opinion.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the PCC and the Chief Constable and with our knowledge of these businesses.

## **Whole of Government Accounts (WGA)**

Our work on the PCC and Chief Constable's consolidation return, following guidance issued by the NAO, is ongoing as at the date of writing this letter. This work necessarily takes place following the completion of the financial statements audit.

## **Other statutory powers**

We have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the PCC and Chief Constable's accounts and to raise objections received in relation to the accounts.

## **Certificate of closure of the audit**

We plan to certify that we have completed the audit of the accounts of the PCC and the Chief Constable in accordance with the requirements of the Code of Audit Practice after we have finalised our work on the whole of government consolidation work.

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# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the conclusions from the work we performed are set out below. We reported our findings in more detail in our Audit Findings report, which was agreed with the PCC and Chief Constable in July 2019. We also agreed recommendations with both entities.

- **Devolution** – We did not identify any unmitigated residual material issues to report.
- **Financial strategy and long term sustainability** – We did not identify any unmitigated residual material issues to report.
- **Risk Management** – We did not identify any unmitigated residual material issues to report.

## Overall Value for Money conclusion

We were satisfied that in all significant respects that both the PCC and Chief Constable had put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources for the year ending 31 March 2019.

# A. Reports issued and fees

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

## Reports issued

Report	Date issued
Audit Plan	28 March 2019
Audit Findings Report	25 July 2019
Annual Audit Letter	August 2019

## Fees

	Planned £	Actual fees £	2016/17 fees £
PCC audit	32,623	32,623	49,896
CC Audit	17,325	21,825	47,544
<b>Total fees</b>	<b>49,948</b>	<b>54,488</b>	<b>97,440</b>

## Audit fee variation

As outlined in our audit plan, the 2018/19 scale fee for the PCC and Chief Constable published by PSAA of £49,948 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Area	Reason	Fee proposed
<b>Assessing the impact of the McCloud ruling</b>	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. This resulted in significant material amendments to the pension liabilities in the financial statements. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	£2,500
<b>Pensions and PPE valuation</b>	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
<b>Total</b>		£4,500

**Fee variations are subject to PSAA approval.**

# A. Reports issued and fees continued

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

## Fees for non-audit services

Service	Fees £
<b>Audit related services</b> - None	Nil
<b>Non-Audit related services</b> - None	Nil

## Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the PCC and Chief Constable. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the PCC and Chief Constable's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the PCC and Chief Constable's policy on the allotment of non-audit work to your auditor.



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