



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

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Year ended 31 March 2020

November 2020



# Contents



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<b>Section</b>	<b>Page</b>
1. Headlines	3
2. Financial statements	5
3. Value for money	18
4. Independence and ethics	20
<b>Appendices</b>	
A. Action Plan	28
B. Follow up of prior year recommendations	31
C. Audit Adjustments - PCC and Group, and Chief Constable	34
D. Fees	40
E. Audit opinions	41

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 Police and Crime Commissioner ('the PCC') for the West Midlands and Chief Constable and the preparation of the PCC's and Chief Constable's financial statements for the year ended 31 March 2020 for the PCC and Chief Constable.

<p><b>Financial Statements</b></p>	<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"> <li>• give a true and fair view of the financial position of the entity and the entity's income and expenditure for the year; and</li> <li>• 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.</li> </ul> <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 has been undertaken remotely during June – November 2020. Our findings to date are summarised on pages 5 to 18. We have identified one adjustment relating to the McCloud pension ruling which has resulted in a decrease to the Cost of Police Services for the Chief Constable of £93.1 million. This therefore also impacts the CIES of the Group financial statements.</p> <p>Our work has not identified any other adjustments to the financial statements that will impact the Comprehensive Income and Expenditure Statements. There are other presentational and disclosure amendments which have been identified. Where above triviality, these are detailed in Appendix C.</p> <p>We have also raised recommendations for management in Appendix A as a result of our audit work. This includes rolling forward recommendations from 2018/19 which have not been implemented. Our follow up of recommendations from the prior year's audit is detailed in Appendix B.</p> <p>Our final opinion is subject to the completion of the following outstanding matters;</p> <ul style="list-style-type: none"> <li>• West Midlands Pension Fund signed off;</li> <li>• receipt of management representation letters; and</li> <li>• review of the final sets of financial statements.</li> </ul> <p>All aspects of work are still subject to the final quality review processes by the Manager and Engagement Lead.</p> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisations.</p> <p>Our anticipated audit report opinions will be unmodified. The PCC's will include an Emphasis of Matter paragraph, highlighting the material uncertainty of the valuation of land and buildings. The CC's will include an Emphasis of Matter paragraph, highlighting the material uncertainty on the valuation of investment properties within the portfolio of the Local Government Pension Scheme. Draft wording is set out in Appendix E.</p>
<p><b>Value for Money arrangements</b></p>	<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>As part of our on-going work, we have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19.</p> <p>We therefore anticipate issuing an unqualified value for money conclusions, as detailed in Appendices E and F. Our findings are summarised on pages 19 to 26.</p>

# Headlines

This table summarises the key findings and other matters arising from the statutory audits of West Midlands Police and Crime Commissioner ('the PCC') and West Midlands Chief Constable and the preparation of the PCC's and Chief Constable's financial statements for the year ended 31 March 2020 for the PCC and Chief Constable.

<b>Covid-19</b>	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the group. Authorities were still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 14 April 2020. In that addendum we reported an additional potential financial statement risk in respect of Covid-19. Whilst not identified as a significant risk we have considered the impact on our VfM approach. Further detail is set out on pages 19 and 26.</p> <p>Restrictions for non-essential travel has meant both group's staff and audit staff have had to initiate remote working arrangements from home including the remote accessing of financial systems, the provision of working papers electronically by secure means, the use of video and telephone conferencing arrangements and using virtual technology to observe the download of data and other information to ensure its completeness and accuracy for testing.</p> <p>Finance staff have responded positively and communication has been good throughout the audit process. We recognise that work has taken longer and are in discussions around the financial implications of this for the PCC, the Chief Constable and where additional Covid-19 funding will need to be secured to support any over-runs agreed.</p>
<b>Statutory duties</b>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> <li>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li> <li>• to certify the closure of the audits.</li> </ul>	<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 and expect to be able to certify the completion of the audits when we give our audit opinion. This is subject to the completion of the Whole of Government Accounts (WGA) work being concluded.</p>

## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

# 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 the PCC and Chief Constable to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management

As auditor we are responsible for performing the audits, in accordance with International Standards on Auditing (UK) 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 the PCC and Chief Constable. The audit of the financial statements does not relieve management or the PCC and Chief Constable 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 business and is risk based, and in particular included:

- an evaluation of the PCC's and Chief Constable's internal controls environment, including its IT systems and controls; and

- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have had to alter our audit plan, as communicated to you in our Audit Plan Addendum on 14 April 2020 to reflect our response to the Covid-19 pandemic, which we identified as an additional significant risk.

## Conclusion

We have substantially completed our audits of your financial statements and, subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion by the revised deadline of 30 November 2020, and agreement of our findings with the Police and Crime Commissioner and Chief Constable as those charged with governance. The outstanding items are set out on page 3.

As noted on page 3, our ability to conclude and sign off the audit will be dependent on resolving all outstanding work and also receiving confirmation that the necessary work required to sign the West Midlands Pension Fund opinion has been completed.

## 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. Materiality levels remain the same as reported in our audit plan/addendum.

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	9,900k	Gross Expenditure on Policing Services was determined as the appropriate benchmark for determining materiality. 1.5% was deemed an appropriate rate to apply to the benchmark. The group materiality was determined using the Chief Constable's Gross Expenditure on Policing Services.  We calculated materiality for the Group, PCC and Chief Constable separately. Due to the nature of the police group, where the financial statements are disaggregated from one ledger, we selected the lowest materiality benchmark (that for the Chief Constable) and applied this to our testing of balances and transactions to ensure appropriate coverage.
Trivial matters	500k	5% of materiality is deemed an appropriate level for triviality.

# Significant findings – audit risks

Risks identified in our Audit Plan	Relates to	Commentary
<p><b>Covid- 19</b></p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> <li>- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation</li> <li>- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates</li> <li>- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and</li> <li>- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.</li> </ul> <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement</p>	<p><b>Group, PCC and the Chief Constable</b></p>	<p>We:</p> <ul style="list-style-type: none"> <li>• worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts, and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 24 June 2020;</li> <li>• liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the PCC's property valuation expert;</li> <li>• evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;</li> <li>• evaluated whether sufficient audit evidence could be obtained through remote technology;</li> <li>• evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and pension fund net liability valuations;</li> <li>• evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and</li> <li>• discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.</li> </ul> <p>Management produced the draft financial statements and working papers broadly in line with the original timetable. There was a slight delay due to the finance team awaiting information from other Local Government bodies for precept data. But communication with the audit team was strong and this did not create a delay in the audit process. Producing accounts to this timescale was a significant achievement with all staff working remotely.</p> <p>We completed our audit remotely and, whilst it took longer than usual, we were able to utilise technology to corroborate information produced by the PCC and Chief Constable. The finance team have been extremely responsive to audit queries throughout the audit and we would like to express our appreciation for this.</p> <p>We did not identify any implications for our audit report resulting from Covid-19, however our report includes standard reference to the macroeconomic conditions arising from Brexit and Covid-19.</p>

# Significant findings – audit risks

Risks identified in our Audit Plan	Relates to	Commentary
<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><b>Group, PCC and the Chief Constable</b></p>	<p>The assessment in our audit plan to rebut the presumed risk of improper revenue recognition remains appropriate. We have rebutted the presumed risk for the PCC and the Chief Constable 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 public sector bodies, including the PCC and the Chief Constable for the West Midlands, means that all forms of fraud are seen as unacceptable.</li> </ul> <p><b>Conclusion</b></p> <p><b><i>We do not consider this to be a significant risk for the PCC.</i></b></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. <b><i>Therefore we have determined that the risk of fraud arising from revenue recognition is not a significant risk for the Chief Constable</i></b></p> <p><b>Conclusion</b></p> <p><b><i>There have been no changes to the assessment above as reported in our audit plan.</i></b></p>
<p><b>Management override of controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The PCC and Chief Constable 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, which was one of the most significant assessed risks of material misstatement.</p>	<p><b>Group, PCC and the Chief Constable</b></p>	<p>As part of our audit work, we:</p> <ul style="list-style-type: none"> <li>• evaluated the design effectiveness of management controls over journals</li> <li>• analysed the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• are in the process of testing unusual journals recorded for appropriateness and corroboration</li> <li>• gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul> <p>Our audit work on journals has not identified any issues in respect of management override of controls.</p> <p><b>Conclusion</b></p> <p><b><i>There are no material issues arising to draw to the attention of those charged with governance in respect of the identified risk.</i></b></p>

# Significant findings – audit risks

Risks identified in our Audit Plan	Relates to	Commentary
<p><b>Valuation of land and buildings</b></p> <p>The PCC (and Group) revalues land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£159 million) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally, management will need to ensure the carrying value in the financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date where a rolling programme is used</p> <p><b>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</b></p>	<p><b>Group and PCC</b></p>	<p>As part of our audit work, 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 the valuation experts and the scope of their work</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert</li> <li>discussed with the valuer and confirmed in writing the basis upon which the valuations were carried out</li> <li>challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>engaged our own valuer (Wilks Head &amp; Eve LLP) to assess the instructions to the group/PCC's valuer, the group/PCC's valuer's report and the assumptions that underpin the valuation</li> <li>tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the asset register, and</li> <li>are evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially difference to current value at year end.</li> </ul> <p><b><i>We have noted that disclosure of the material valuation uncertainties arising from the global pandemic, and referred to in the valuer's report, was disclosed within the financial statements. We will refer to this disclosure in an Emphasis of Matter paragraph in our audit report.</i></b></p> <p><b><i>We have not identified any further issues in respect of valuations of the PCC's property which we wish to bring to your attention.</i></b></p>




# Significant findings – audit risks

Risks identified in our Audit Plan	Relates to	Commentary
<p><b>Valuation of pension fund net liability</b></p> <p>The Police Officer Pension scheme's pension fund liability, as reflected in the balance sheet and notes to the accounts, represent significant estimates in the financial statements.</p> <p>The Local Government Pension Scheme pension (LGPS) net liability, as reflected in the group's balance sheet, and asset and liability information disclosed in the 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>This estimate has been potentially impacted by the court judgement regarding McCloud / Sargeant.</p> <p><b>We therefore identified valuation of the group's pension fund net liabilities as a significant risk.</b></p>	<p><b>Group, PCC and the Chief Constable</b></p>	<p>As part of our audit work, we:</p> <ul style="list-style-type: none"> <li>updated our understanding of the processes and controls put in place by management to ensure that the Group's pension fund net liability is not materially misstated and evaluate the design of the associated controls</li> <li>evaluated the instructions issued by management to their management expert (the actuaries) for this estimate and the scope of the actuary's work</li> <li>assessed the competence, capabilities and objectivity of the actuaries who carried out the Group's pension fund valuation</li> <li>assessed the accuracy and completeness of the information provided by the Group to the actuaries to estimate the liability</li> <li>tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuaries</li> <li>undertaken 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> </ul> <p>Following the ruling during 2018/19 relating to age discrimination (McCloud), draft amendments to the statutory underpin were issued for consultation in July 2020. Management requested that the actuary gives consideration to the potential changes to the related liabilities following the issue of this consultation document and produce an updated report for the Police Officer's pension fund to identify the impact of the proposed restitution for the McCloud judgement on the Police Officer's pension fund liability.</p> <p>This revised report has now been received and identified a material impact on the financial statements. Pension liability estimates are lower than in the original actuarial report with a reduction of £93.1 million in the pension liability disclosed in the Chief Constable's and group's financial statements. The financial statements have been amended for these items. We have reviewed the updated report and ensured that the figures have been correctly reflected in the financial statements.</p> <p>The LGPS work is also partially dependent on the progress of the West Midlands Pension Fund audit, where we require assurances 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. This work is still in progress.</p> <p><b><i>Our audit work in this area has not identified any other issues in respect of valuation of the Chief Constable's and group's net pension liabilities at the time of writing this report.</i></b></p>

## Significant findings - other issues

Issue	Relates to	Commentary
<p><b>IFRS 16 implementation has been delayed by one year</b></p> <ul style="list-style-type: none"> <li>Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases</li> </ul>	PCC	The PCC complied with the requirement of IAS 8 para 31 by disclosing the title of the standard and the date of the initial application. The note states that the impact is currently unknown, which is in line with our expectations.


# Significant findings – key judgements and estimates

	Relates to	Summary of management's policy	Audit Comments	Assessment
<b>Land and Buildings – Other – £152 million</b>	<b>Group and PCC</b>	<p>Other land and buildings of £152 million of which approximately £38 million is specialised assets such as custody blocks 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.</p> <p>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. The PCC engaged Savills to complete an impairment review of properties as at 31 March 2020.</p> <p>In line with RICS guidance, the PCC's valuer disclosed a material uncertainty in the valuation of the PCC's land and buildings at 31 March 2020 as a result of Covid-19. The PCC has included disclosures on this issue in Note 4.</p> <p>Management has considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 1 January 2020 to determine whether the value of the properties has materially changed. Management's assessment of assets not revalued has identified no material change to the properties values.</p> <p><b>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.</b></p>	<ul style="list-style-type: none"> <li>We reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. We then considered the competence, expertise and objectivity the valuer in their capacity as the management experts used.</li> <li>There have been no changes to the valuation method this year.</li> <li>Disclosure of the estimate in the financial statements is considered adequate.</li> </ul> <p>Our work on the revaluation of land and buildings for 2019/20 has not identified any issues we are required to bring to your attention.</p> <p>However, the last full valuation of land and buildings was undertaken by an independent Valuer in December 2018. To inform Management as to whether there are material movements in these valuations as at March 2020, an impairment review was commissioned.</p> <p>By March 2021, the valuation information will be over 2 years old and due to the dynamic and potentially volatile market conditions, this may result in Management requiring more comprehensive external advice in assessing whether material movements are present next year. This is particularly relevant for Lloyd House which has not been formally valued since 2017/18.</p> <p><b><i>Consideration should be made to whether an accounting policy which sets out a rolling valuation approach is more appropriate within the current financial environment.</i></b></p>	 <p><b>Green</b> (for 2019/20)</p>

## 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
<b>Net pension liability – PCC and Chief Constable Fund</b> <b>£7,826 million</b>	<b>Group, PCC and the Chief Constable</b>	<p>The PCC's and Chief Constable's net pension liability at 31 March 2020 is £7,826 million (PY £8,355 million) comprising the obligations under the West Midlands Pension Fund and the Police Pension scheme. The PCC and Chief Constable use Barnet Waddingham and GAD 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. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p> <p>There has been a £736.1 million net actuarial gain during 2019/20.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>assessed management's expert</li> <li>assessed the actuary's roll forward approach taken and deemed it reasonable</li> <li>used PwC as our auditors expert to assess the actuary and assumptions made by the actuary (Please see 'Pensions Assumptions' slide on page 14)</li> <li>confirmed the completeness and accuracy of the underlying information used to determine the estimate</li> <li>confirmed that there have been no changes to the valuation method</li> <li>confirmed the reasonableness of the PCC's share of LGPS pension assets.</li> <li>confirmed the consistency of the pension fund assets and liability disclosures in notes to the financial statements with the actuarial report from the actuary.</li> </ul> <p>We have documented our conclusions in this area as set out previously on page 9.</p> <p>Our work in respect of assessing the assumptions used by the actuary, considering the work of our auditor's expert PwC, is complete and is reflected in the table on page 14.</p> <p><b><i>Disclosure of the estimate in the draft financial statements was considered adequate. Additional narrative has been added to the financial statements to explain the approach taken to the estimate of the liabilities in relation to McCloud.</i></b></p>	 <p><b>Green</b></p> <p>(after adjustments in relation to McCloud)</p>

## 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
<b>Net pension liability –LGPS £209 million</b>	<b>Group and PCC</b>	<p>The net pension liability at 31 March 2020 is £307.8 million (PY £369.8 million) comprising the obligations under the West Midlands Pension Fund Local Government defined benefit pension scheme. The group/PCC uses Barnet 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. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p> <p>There has been a £93.1 million net actuarial gain during 2019/20.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>assessed management's expert</li> <li>assessed the actuary's roll forward approach taken and deemed it reasonable</li> <li>used PwC as our auditors expert to assess the actuary and assumptions made by the actuary (Please see 'Pensions Assumptions' slide on page 14)</li> <li>confirmed the completeness and accuracy of the underlying information used to determine the estimate</li> <li>confirmed that there have been no changes to the valuation method</li> <li>confirmed the reasonableness of the PCC's share of LGPS pension assets.</li> <li>confirmed the consistency of the pension fund assets and liability disclosures in notes to the financial statements with the actuarial report from the actuary.</li> </ul> <p>Our work in this area is still in progress, as set out previously on page 9.</p> <p><b><i>Our work in respect of assessing the assumptions used by the actuary, considering the work of our auditor's expert PwC, is complete and is reflected in the table on page 14.</i></b></p>	 <b>Green</b>

## 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

# Pensions Assumptions

LGPS Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.35%	2.35%	●
Pension increase rate	1.85%	1.85% - 1.95%	●
Salary growth	2.85%	Values are in line with PwC report	●
Life expectancy – Males currently aged 45 / 65	23.9 21.9	22.8 – 24.7 21.4 – 23.3	●
Life expectancy – Females currently aged 45 / 65	26.0 24.1	25.2 – 26.2 23.7 – 24.7	●

PPS Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.25%	2.25%	●
Pension increase rate	2.0%	2.0%	●
Salary growth	4.0%	4.0%	●
Life expectancy – Males currently aged 45 / 65	Normal health pensioners 104% of S2NXA U=2020	104% S2NA normal	●
Life expectancy – Females currently aged 45 / 65	26.0 24.1	25.2 – 26.2 23.7 – 24.7	●

# 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 material uncertainty disclosures

It has been a difficult year due to the Covid-19 pandemic and the impact of this on the normal operations of the PCC and Chief Constable, with front-line challenges, staff sickness, and the additional pressures of maintaining services under changes to government guidelines. Both the PCC and Chief Constable are facing significant financial risk, both in the current year and looking forward in the medium term. This has also been considered as part of the work for the value for money conclusion.

Management have undertaken an analysis of the potential financial implications of Covid-19. It may take a number of years before the group can fund its gross service expenditure without the use of its reserves although this continues to be an ever-changing financial landscape. The group is forecasting further use of its financial reserves to pay its expenses in 2020/21. Given the sensitive nature of potential disclosures, we have identified this as an area of focus in our audit.

## Going concern commentary – PCC and Chief Constable

### Management's assessment process

### Auditor commentary

Management has undertaken their own assessment of going concern, taking into account Paragraph 2.1.2.9 of the Code of Practice on Local Authority Accounting, which states that “*An authority’s financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future*”.

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 2020/21 budget submission that baseline savings of c£130 million are required by 2024/25. This assessment considers the 2020/21 financial year, as well as the period of the MTFP. Uncertainties in the medium term regarding central government funding has made financial planning for the future challenging. Consideration of the potential impact of Covid-19 on income levels and cash flow forecasts over the next few years is ongoing, and is being discussed with the PCC and Chief Constable as the picture evolves. We have examined the Medium Term Financial Plan (MTFP) and assessed the reasonableness of assumptions, judgements and estimates. The MTFP includes a continued growth target for Police Officers. This is a reversal of a recent trend to 2018/19 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 until 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. All of this is set against the uncertain backdrop of Covid-19. General Fund reserves as at 31 March 2020 were £12.042 million, held at the same level as the previous three years and in line with the Reserves Strategy. This represents a General Fund of approximately 1.1% of gross expenditure. The PCC has approved a balanced budget for 2020/21.

We consider that the process being undertaken for assessing going concern is appropriate, and arrangements are adequate. This process is being led by the respective s151 officers (the Director of Commercial Services for the Chief Constable and the Chief Finance Officer to the PCC).

# Going concern (continued)

## Going concern commentary – PCC and Chief Constable

<b>Work performed</b>	<p data-bbox="279 309 518 335"><b>Auditor commentary</b></p> <p data-bbox="279 349 1968 514">We have reviewed the 2020/21 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 30 November 2021. Whilst we have identified greater risk to the financial sustainability of the Force, we still consider that they are a going concern. We have assessed the disclosures within the financial statements as reasonable but have requested additional disclosures in relation to financial sustainability to be included within both Annual Governance Statements within the group financial statements.</p>
<b>Concluding comments</b>	<p data-bbox="279 514 518 539"><b>Auditor commentary</b></p> <p data-bbox="279 554 1181 592"><b><i>We anticipate issuing an unmodified audit opinion in relation to going concern.</i></b></p>



# 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 the PCC and Chief Constable for West Midlands.

	Issue	Commentary
1	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Joint Audit Committee, the Chief Constable and the PCC.</li> <li>We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
2	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We 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.</li> <li>From the work we carried out, we have not identified any related party transactions which have not been disclosed.</li> </ul>
3	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>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.</li> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
4	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation will be requested from each of the PCC and Chief Constable, including specific representations in respect of the Group.</li> <li>The wording of these letters will also be shared with Members of the Joint Audit Committee.</li> </ul>
5	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send confirmation requests for bank and investment balances. This permission was granted and the requests were sent. All investment letters have been received. We have undertaken alternative procedures to obtain sufficient assurance over bank balances.</li> <li>We requested from management permission to send confirmation requests to the pension fund auditor. This permission was granted and the requests were sent. We have received the response from the Pension Fund auditor and undertaken the additional work to address potential issues they have raised. This provides us with appropriate assurance.</li> </ul>
6	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>
7	<b>Audit evidence and explanations/significant difficulties</b>	<ul style="list-style-type: none"> <li>All information and explanations requested from management was provided promptly by management.</li> </ul>

## Other responsibilities under the Code

Issue	Commentary
1 <b>Other information</b>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statements 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. We plan to issue an unmodified opinion in this respect.</p>
2 <b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>• If the Annual Governance 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</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>We requested additional disclosures within the Annual Governance Statements for both the Police and Crime Commissioner and the Chief Constable in light of the significant financial pressures we have identified. These amendments have been made.</p>
3 <b>Specified procedures for Whole of Government Accounts</b>	<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. Group instructions have been recently released and confirm that the audit and reporting approach will be as for 2018/19. We aim to complete the required procedures in advance of the reporting deadline.</p>
4 <b>Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2019/20 audit of the Police and Crime Commissioner for the West Midlands and the Chief Constable in the audit report. This is subject to us completing the required procedures necessary for the Whole of Government Accounts assurance statement.</p>

# Value for Money

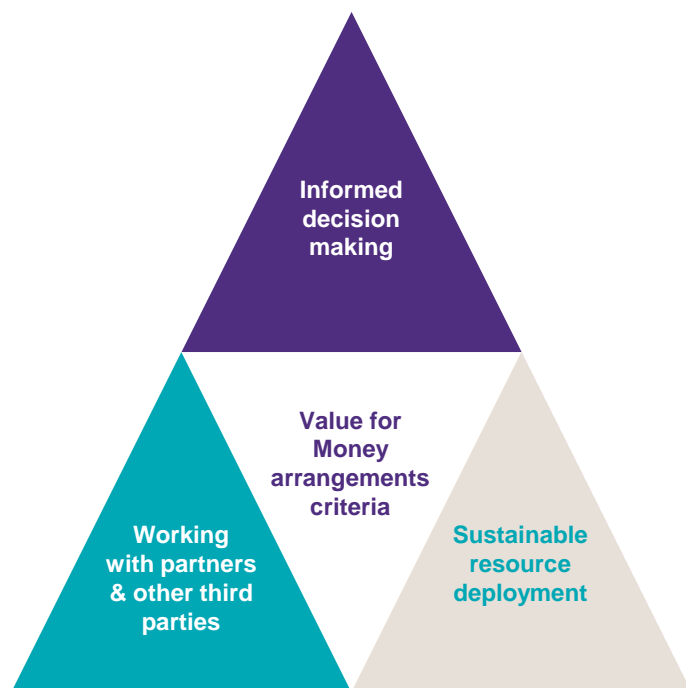
## Background to our VFM approach

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 April 2020. 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 February 2020 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 2020.

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 have not identified any new VfM risks in relation to Covid-19. We do not consider Covid-19 to be a significant risk for the 2019/20 financial year given the date of the pandemic.

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's 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's and Chief Constable's arrangements, that being, Financial Sustainability.

We have not concluded our work at this time and will need to ensure that our findings are not only agreed with Management, but also understood within the wider public sector economic climate and more specifically against other Police forces.

## **Recommendations for improvement**

We will discuss the findings arising from our work with management and will agree recommendations for improvement.

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

We have not experienced any significant difficulties in undertaking our work on your arrangements to date which we wish to draw to your attention.

## **Significant matters discussed with management**

There have been 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 the PCC and Chief Constable .

## 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

#### Financial sustainability

The West Midlands Police Force and the West Midlands OPCC will deliver an underspend position in 2019/20, however the financial position for 2020/21 and beyond is finely balanced. The reserves position has declined significantly in recent years and in the medium term is forecast to reduce to 5.6% of Net Revenue Budget compared with the average for all Forces of 9.1%. The Force will be required to deliver savings of circa £10 million in 2020/21, with there being no contingency for very major incidents included in the 2020/21 budget. The medium term financial plan is due to be revised during early 2020/21.

We have reviewed the Force's Medium Term Financial Strategy and financial monitoring reports and assess the assumptions used and the savings being achieved.

We have also considered the impact that Covid-19 has had on your financial yearend position, the Medium term Strategy and savings delivery in 2020/21.

#### 2019/20 outturn

In June 2020 the Chief Finance Officer to the PCC reported the Force's delivery of its planned 2019/20 revenue underspend of £20.137 million, representing 3.5% of the total budget of £580 million. Coupled with an underspend for the OPCC, this provides a total underspend of £23.939 million as shown below.

	Budget £000	Outturn £000	Variance £000 (underspend)	
Force	557,466	548,688	(8,778)	Of which £3.7m planned to support 2020/21 funding shortfall. The remainder added to reserves.
WMP2020	22,419	11,060	(11,359)	To be carried forward to fund 2020/21 WM2020 projects
<b>Force sub-total</b>	<b>579,885</b>	<b>559,748</b>	<b>(20,137)</b>	
OPPC	12,928	9,126	(3,802)	To be carried forward to 2020/21
<b>Total</b>	<b>592,813</b>	<b>568,874</b>	<b>(23,939)</b>	

The largest element of the underspend was attributable to the WMP2020 transformation programme, now rebadged as the transformation programme. This programme aims to deliver financial and non-financial benefits. This total underspend was in part a result of project delays due to Covid-19 and also due to the Force recruitment plan not progressing as planned at the start of the year. As a result, the Force contributed £0.973 million to reserves, instead of the planned £22.966 million. This £0.973 million is made up from £20.629 million used from reserves mainly as a result of carry forwards from 2018/19 and a £21.602 million contribution to reserves, of which £3.701million was a general underspend carried forward to support the savings required for 2020/21.

We note that the utilisation of reserves over the previous five years was a planned decision to enable delivery of the transformation programme and against a national steer to reduce reserve balances in those force areas considered to have high reserve balances.

#### 2020/21 budget

The 2020/21 combined Force and OPCC revenue budget has increased to £624.1 million and includes £9.9 million of savings. To date, £3 million (c30%) of these saving have been identified and the £3.7 million of additional reserves from the 2019/20 underspend will be used to reduce the shortfall. The intention is that the balance of £3.2 million will be delivered through in-year underspends and flexible use of the uplift funding. The force is planning a priority based budgeting exercise to assist in identifying further savings. As a result, the intention is to report to the Strategic Police and Crime Board in November 2020 that the total required use of reserves is £7.2 million.

**Significant risk****Financial sustainability continued****Findings and Conclusion**

The planned use of reserves in February 2020 was £3.2 million, as at July 2020 this had increased to £5.2 million as the force is forecasting a revenue outturn overspend of £2.3 million. The increased financial pressures are as a result of Covid-19 as it is unclear as to how much of the increased cost the Home Office will reimburse, although the costs relating to PPE have been agreed and now received. This is also against a backdrop of another one year financial settlement balanced in part by increased precepts although it is accepted that these increases are not as large as they could have been due to previous years where no increase was made.

**Medium term financial plan (MTFP)**

The Force aims to update its Medium Term Financial Plan (MTFP) annually and had a MTFP in place for 2019/20 covering five years. Due to the Covid-19 pandemic, work has begun on the MTFP for 2020/21, developed using the same methodology as previous years, but the finalisation has been delayed. The MTFP was finalised in October and presented to the Chief Constable and Deputy Chief Constable. The MTFP was presented to the Strategic Police and Crime Board in November 2020.

The start point was a roll forward of previous income and expenditure with inflationary adjustments. The MTFP covers five financial years, with the first being the 2020/21 budget.

The table below shows the financial shift in the required use of reserves to achieve an annual breakeven position as reported in the 2019/20 and 2020/21 current budgets and then the 2019/20 and 2020/21 MTFP. (Brackets) indicate reserves required to meet a funding gap.

**Table 1: Required use of reserves as set out in the budgets and MTFP – year on year comparison**

Source	2019/20 MTFP /current budget	2020/21 MTFP /current budget	2021/22 MTFP	2022/23 MTFP	2023/24 MTFP	2024/25 MTFP
2019/20 MTFP	(£24.4 million) Current budget	£3.7 million MTFP	£12.8 million	£14.9 million	£18.4 million	£22.3 million
2020/21 MTFP		(£7.2 million) current budget	(£22.8 million)	(£27.2 million)	(£34.0 million)	(£37.3 million)

Based on the figures above the Force and the PCC, along with all police bodies across England face a worsening and uncertain financial future. If the scenario as set out in the above chart were to occur then its reserves could be depleted by 2022/23. Although the expectation from finance staff is that the use of reserves at the level set in the MTFP would be highly unlikely as work is in progress including a priority based budget exercise to identify efficiencies and savings going forward. The MTFP sets out a very prudent view, recognising all possible expenditure, but only recognising income once certain. We are aware that there is flexibility around the additional funding provided for the extra police officer posts. There is also further possible Covid-19 reimbursement which will be provided, however this would offset additional expenditure not currently included within the MTFP.

This is compounded by the uncertainty resulting from annual funding settlements and the Force being unable to plan longer term with any clear confidence. Assumptions for a three year settlement from the Government continue to be worked on, but when that will be released is still unknown. Autumn 2020 saw another 1 year settlement whilst the uncertainty of Covid-19 plays out resulting in different assumptions being necessary.

**Significant risk****Findings and Conclusion****Financial sustainability continued**

Consideration should also be given to the best time to develop and finalise the MTFP. WMP's approach separates the agreement of the annual budget from the five year MTFP. As a result, the base year is always already part way through with the shifting actual position impacting on the forecasts and projections. In our view, it would be more efficient and provide better understanding of performance against the MTFP to set it at the same time as the budget or prior to the budget so that year 1 of the MTFP is forward looking. The timing of the financial settlement announcement is crucial. With an early December announcement, the Force plans to confirm a 2021/22 MTFP by February but any slippage from Government will have a knock on effect on the timing for the West Midlands OPCC receiving their MTFP.

We also consider that the MTFP and overall financial understanding across the OPCC could be strengthened by the introduction of more detailed scenario planning demonstrating the I&E impact on reserves across the longer term.

The presentation for the Strategic Police and Crime Board in November 2020 includes some sensitivity analysis and considers a 1% fluctuation in costs and income, as well as a £1 movement in precepts, but the MTFP does not include detailed scenario planning. This is recognised by management and a finance staffing restructure has been undertaken to ensure they have the capacity and capabilities to consider and implement sensitivity analysis going forward. The finance structure now includes three distinct areas:

1. Strategic finance
2. Finance business partnering
3. Financial accounting and tax

The MTFP should take into account other possible scenarios, such as savings derived from the additional Home Office funding or the priority based budgeting exercise underway. Previously we recommended that scenario planning be expanded to consider 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 will support the Force in responding to the current uncertainty around future funding with some cautious optimism. This recommendation remains valid and has been included below.

**Recommendation**

The MTFP provides the opportunity for the WMP to consider all the uncertainties that affect it and provides the platform for decisions to be made as to how financial sustainability and funding gaps can be addressed. In order to achieve this the MTFP should be improved and WMP should consider:

- bringing forward the timing of the MTFP, so it is completed alongside the agreement of the budget or shortly after. If this is not possible then the MTFP should reflect the current financial year and the forecast year end position, which is the base year of the MTFP
- ensure a range of scenarios are considered. The MTFP should reflect 'better than expected' as well worst case scenarios, particularly as senior finance officers do not consider the worst case to be the most likely scenario

## Significant risk

## Findings and Conclusion

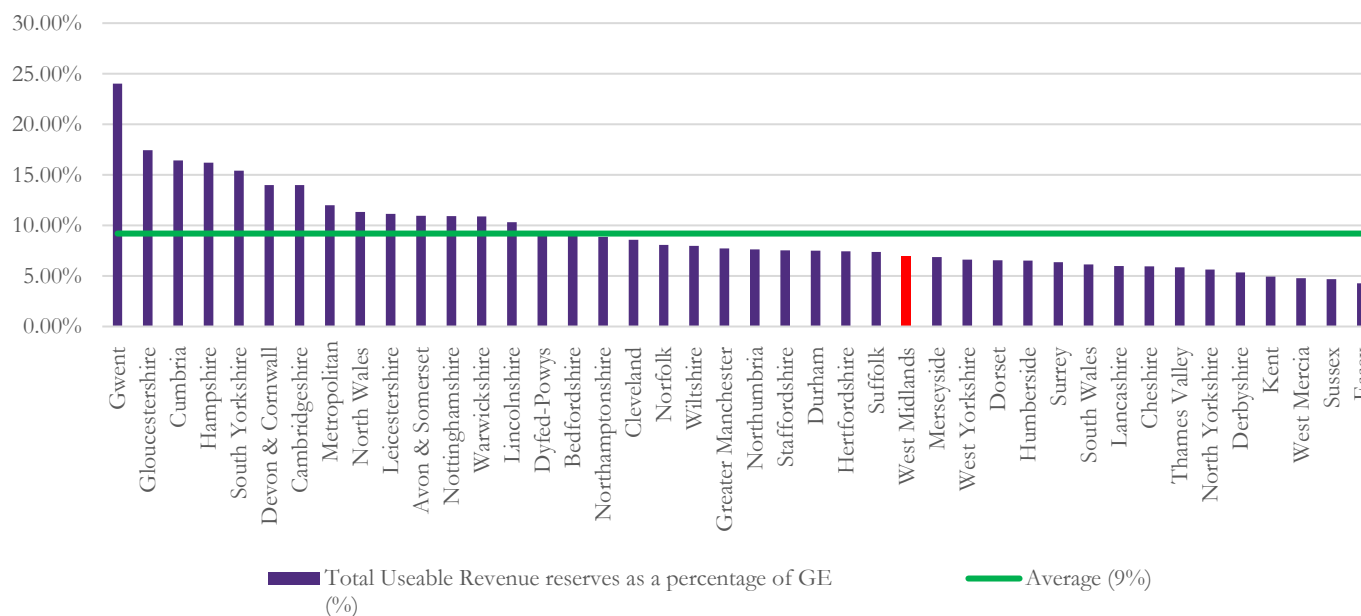
## Financial sustainability continued

## Reserves Strategy

The PCC has a Reserves Strategy which sets out the reserve balance and predicted use of reserves until 2024. The update of this strategy was delayed until November 2020. The recent update reflects the updated reserves position as at 31 March 2019 and assumes that useable reserves (budget and change reserves) will be utilised by 31 March 2024. The MTFP assumes that general reserves will be maintained at £29 million at 31 March 2024.

As set out previously, the MTFP is reliant on the use of reserves to deliver financial balance. Reserves support both spending and delivery of the transformation savings programme (WMP2020). The total reserves as at 31 March 2020 were £47.2 million and general reserves have remained at £12 million. As chart 1 below illustrates, the amount of available reserves as at 31 March 2020 remains below average at 6.9% and low in comparison with others, despite the use of reserves that year being significantly below that planned and documented within the MTFP due to slippage within the transformation programme. These earmarked reserves have been carried forward to be used as planned in 2020/21. However, it should be noted that the reserves strategy for a number of years has been to use reserves to support transformational change which would release savings.

**Chart 1. Usable Revenue Reserves as % of Gross Expenditure  
(Cost of Policing) 2019/20**





**Significant risk****Findings and Conclusion****Financial sustainability continued****WMP2020 Transformation Programme**

WMP2020 is approaching the end of its five year programme, with the focus now on delivering the small number of remaining projects. The transformation programme still continues to deliver cashable and non-cashable savings, however, in 2019/20 since the outbreak of Covid-19 the focus has been on capturing and reporting cashable savings. This was a risk based decision due to resources being deployed elsewhere.

In 2019/20 £4.5 million was delivered in cashable savings and deducted from base budgets for the year. Progress on each individual project is monitored and tracked through a number of tools including the productivity matrix and the project finance tracker although the cumulative total has not been reported since January 2020.

Progress is reported annually but up to six months after the year end. In addition the cumulative savings position is reported covering six years with progress for each individual year not being reported. This style of reporting limits the ability to challenge current delivery on a timely basis. By reporting the cumulative position in this way, it is not clear which savings have already used to support expenditure and which relate to current financial pressures.

We are aware that not all the recommendations raised in 2018/19 have been addressed. The finance restructuring should address this issue and provide more capacity, but this is reliant upon. The recommendations raised last year have been combined into the recommendations raised within this conclusion summary.

**Recommendation**

Reporting of delivery of the transformation programme's cashable and non-cashable savings should be improved by providing analysis of the last and current financial year to enable effective challenge and understanding of the current benefits being realised.

## 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><b>Covid-19</b></p> <p>We have not identified any additional VfM risks in relation to the pandemic. However, we will consider its impact on financial sustainability and financial plans for 2020/21 onwards and the arrangements in place to ensure critical business continuity.</p>	<p><b>Financial impact</b></p> <p>In 2019/20 the Force spent c£1 million on personal protective equipment (PPE) for which the Home Office have reimbursed.</p> <p>In 2020/21 the financial impact has been more significant, additional expenditure coupled with the loss of income. As at period four the financial pressure was reported as £9.1 million and to date have been reimbursed costs of £6 million.</p> <p>Covid-19 further increases the financial pressures faced by the Force in 2020/21 and beyond.</p> <p><b>Business continuity</b></p> <p>In order to ensure effective business continuity a command structure was introduced in March 2020. A range of tactical and operational groups were established and resources deployed to ensure they were effectively managed and operated.</p> <p>At an operational level within the finance and transformational change departments, Covid-19 has lead to decisions being made to deploy staff to focus on areas which were viewed as being higher priority. This has had an impact, such as delaying the agreement of the MTFP and monitoring delivery of non-cashable savings. These were strategic decisions and understood by Senior Management.</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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix A.

## **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 the PCC and Chief Constable. No non-audit services were identified.

# Action plan




We have identified eight 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 ●	The last full valuation of land and buildings was undertaken by an independent Valuer in December 2018. To inform Management as to whether there are material movements in these valuations as at March 2020, an impairment review was commissioned. By March 2021, the valuation information will be over 2 years old and due to the dynamic and potentially volatile market conditions, this may result in Management requiring more comprehensive external advice in assessing whether material movements are present next year. This is particularly relevant for Lloyd House which has not been formally valued since 2017/18.	PCC	Consideration should be made to whether an accounting policy which sets out a rolling valuation approach is more appropriate within the current financial environment. <b>Management response</b>
2 ●	Testing of operating expenditure found understatement of expenditure in the current and previous financial year as a result of a purchase order being closed prior to the full amount of expenditure per the contract being receipted. This occurred as a result of the Purchasing team closing down a purchase order from 2018 which appeared to be complete but contained expenditure relating to the 2019 and 2020 financial years. This was not checked first with the finance team.	Both	When the Purchasing team is closing old purchase orders which look to be fully received, this should be checked with the Finance team if above a trivial value. <b>Management response</b>
3 ●	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.	PCC	Assess the historic information for each revalued asset to ensure that future revaluations are taken to the revaluation reserve or charged to the CIES correctly to be code compliant. <b>Management response</b>




#### Controls

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


# Action plan (continued)

Assessment	Issue and risk	Relevant to	Recommendations
4	 <p>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>	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><b>Management response</b></p>
5	 <p>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.</p>	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><b>Management response</b></p>
6	 <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>	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><b>Management response</b></p>




## Controls

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

## Action plan (continued)

Assessment	Issue and risk	Relevant to	Recommendations
7 	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	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. <b>Management response</b>

### 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 2018/19 financial statements and value for money conclusion work. We have followed up progress against these recommendations as set out below. Where recommendations are still in progress we have assessed as part of the 2018/19 work and have re-recommended these where appropriate.

Assessment	Issue and recommendation	Relevant to	Follow up findings
1 X	<p>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><b>Recommendation</b></p> <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>	Chief Constable	This recommendation remains outstanding. As the productivity matrix has not been updated since January 2020. This was a risk-based decision due to capacity issue as resources were deployed to focus on priority-based budgeting.
2 X	<p>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.</p> <p><b>Recommendation</b></p> <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>	Chief Constable	This recommendation remains outstanding and should be addressed by the additional capacity secured as a result of the additional posts and finance restructure.

## Follow up of prior year recommendations (continued)

We identified a number of recommendations in the audit of the West Midlands PCC and Chief Constable's 2018/19 financial statements and value for money conclusion work. We have followed up progress against these recommendations as set out below. Where recommendations are still in progress we have assessed as part of the 2018/19 work and have re-recommended these where appropriate.

Assessment	Issue and recommendation	Relevant to	Follow up findings
3 X	<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><b>Recommendation</b></p> <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>	Both	<p>The recommendation remains outstanding.</p> <p>The Reserves Strategy was not updated in Quarter 2 and requires updating.</p> <p>It should reflect the reserves profile as set out in the MTFP and would benefit from being updated at the same time. Superseded by recommendations raised this year.</p>
4 X	<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><b>Recommendation</b></p> <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>	Both	<p>This recommendation remains outstanding.</p> <p>The differences in scoring methodologies were explained at the JAC training session on risk management in October 2019 and the methods of scoring will be reviewed again by December 2020. The risk manager post has been vacant for nine months following the appointment of the Head of Strategy and Direction who's duties include risk management it is considered that this outstanding recommendation will be addressed in 2020/21.</p>



## Follow up of prior year recommendations (continued)

We identified a number of recommendations in the audit of the West Midlands PCC and Chief Constable's 2018/19 financial statements and value for money conclusion work. We have followed up progress against these recommendations as set out below. Where recommendations are still in progress we have assessed as part of the 2018/19 work and have re-recommended these where appropriate.

Assessment	Issue and risk	Relevant to	Follow up findings
5	<p>-</p> <p>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> <p><b>Recommendation</b></p> <p>Assess the historic information for each revalued asset to ensure that future revaluations are taken to the revaluation reserve or charged to the CIES correctly to be code compliant.</p>	PCC	No revaluation impact in 2019/20 but issue is still relevant so will re-raise to ensure that this is considered for future revaluations.

# 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 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
<p><b>1 McCloud Remedy</b> Following HM Treasury's publication of the consultation into changes to the transitional arrangements to the 2015 Scheme, GAD have updated the calculations to only allow for potential McCloud remedy costs for those who were in service on 31 March 2012 and 1 April 2015. This change is based on the eligibility criteria set out by HMT in their consultation and reduces the overall McCloud liability.</p> <p>There is no impact on the cost of the Office of the PCC. This therefore impacts the Chief Constable's statements and the CIES of the Group financial statements</p>	Dr 93,100	Dr 93,100	Cr (93,100)
<b>Overall impact</b>	<b>£93,100</b>	<b>£93,100</b>	<b>£(93,100)</b>

# Audit Adjustments – PCC and Group (continued)

## 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?
<b>Defined benefit pension schemes</b>	<p>As a result of the impact of Covid-19 on the global financial markets, the valuation of the West Midlands Pension Fund's investment properties has been reported on the basis of material valuation uncertainty.</p> <p>The Group's share of these assets is £43.4 million of which the PCC's share is £0.33 million.</p>	<ul style="list-style-type: none"> <li>The defined benefit pension schemes note should disclose to the reader of the financial statements the material uncertainty on which the investment property assets have been valued along with the value of the Group and PCC's share.</li> </ul> <p><b>Management response</b></p>	✓

# Audit Adjustments – PCC and Group (continued)

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of 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><b>1 Understatement of Operating Expenditure</b> One error was identified in the testing of operating expenditure. This was caused by the premature closing down of an old purchase order which had not yet been fully invoiced, resulting in expenditure not being fully recognised. As a result, operating expenditure has been understated.</p> <p>We have performed further testing on a subpopulation of similar items and have found no additional issues.</p>	Dr 545	0	Dr 545	
<p><b>2 Creditors</b> Seized cash was reported on the balance sheet at £3.098 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 3,098 (creditors) Cr (3,098) (provisions)	0	
<b>Overall impact</b>	<b>£545</b>	<b>£0</b>	<b>£545</b>	

# Audit Adjustments – PCC and Group (continued)

## 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 2018/19 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><b>1 Prepayments and Accruals</b> An error was noted during testing of a sample of operating expenditure items. An error in the 2017/18 year was identified relating to a 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 2018/19 expenditure and overstatement of the 2017/18 expenditure of £5,410. When extrapolated over the sampled population, this resulted in an uncertainty of £1.089 million.</p>	Cr (1,089)	0	Cr (1,089)	Management did not consider it was appropriate to adjust due the estimated nature of this misstatement. We have not identified any issues in our 2019/20 debtors testing.
<p><b>2 Creditors</b> 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 did not consider it was appropriate to adjust due the estimated nature of this misstatement.
<p><b>3 Movement between usable and unusable reserves</b> The PCC misclassified a movement from the Earmarked Capital Reserves to the Capital Adjustment Account within the MIRS and the associated notes. This resulted in a disclosure error in prior years which should have been made as an adjustment between accounting and funding basis and not be shown as a transfer from usable to unusable reserves.</p>	0	0	0	Management do not consider that it is appropriate to adjust as there is no misstatement of the reported position within the CIES or the balance sheet.

# 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 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
<p><b>1 McCloud Remedy</b></p> <p>Following HM Treasury's publication of the consultation into changes to the transitional arrangements to the 2015 Scheme, GAD have updated the calculations to only allow for potential McCloud remedy costs for those who were in service on 31 March 2012 and 1 April 2015. This change is based on the eligibility criteria set out by HMT in their consultation and reduces the overall McCloud liability.</p> <p>There is no impact on the cost of the Office of the PCC. This therefore impacts the Chief Constable's statements and the CIES of the Group financial statements</p>	Dr 93,100	Dr 93,100	Cr (93,100)
<b>Overall impact</b>	<b>£93,100</b>	<b>£93,100</b>	<b>£(93,100)</b>

## 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 area	Detail	Auditor recommendations	Adjusted?
<b>Defined benefit pension schemes</b>	<p>As a result of the impact of Covid-19 on the global financial markets, the valuation of the West Midlands Pension Fund's investment properties has been reported on the basis of material valuation uncertainty.</p> <p>The Group's share of these assets is £43.4 million of which the PCC's share is £0.33 million.</p>	<ul style="list-style-type: none"> <li>The defined benefit pension schemes note should disclose to the reader of the financial statements the material uncertainty on which the investment property assets have been valued along with the value of the Group and PCC's share.</li> </ul> <p><b>Management response</b></p>	✓

# Audit Adjustments – Chief Constable (continued)

## **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	Proposed fee	Final fee
<b>PCC Audit</b>	32,623	32,623
<b>Chief Constable Audit</b>	17,325	17,325
<b>Fee Variations</b>	10,150	<b>TBC</b>
<b>Total audit fees (excluding VAT)</b>	<b>£60,098</b>	<b>TBC</b>

We set out in our audit plan how the Financial Reporting Council has set its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. This, coupled with the recent impact of Covid-19 and the increased time taken in managing the audit in a more remote working environment, has clearly impacted our work. We will need to review the actual audit inputs required at the conclusion of our work to assess any fee implications arising from this. We will advise management of any proposed variations to our fees once reviewed.

The proposed fees of £49,948 reconciles to the group financial statements (Note 13) as follows with adjustments providing an overall fee of £48,398.

Audit Cost	£
Fee payable by the PCCWM for the audit of the PCC and Group Accounts	32,623
Fee payable by the Chief Constable of West Midlands Police for the audit	17,325
Additional fees charged by Grant Thornton for work relating to the 2018/19 accounts	4,500
Refunds from PSAA	(6,050)
Total as per Note 13	48,398
Additional fee relating to 2019/20 to be charged to 2020/21	TBC

Any additional fees agreed following the preparation of the 2019/20 financial statements will be shown as audit expenditure in the 2020/21 financial statements. The proposed fee variation for 2019/20 has not yet been discussed with the Chief Financial Officers and is subject to approval by PSAA.

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



# 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 the West Midlands (the 'Police and Crime Commissioner') and its subsidiary the Chief Constable (the 'group') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement – Group, the Comprehensive Income and Expenditure Statement – PCC, the Group Movement in Reserves Statement, the PCC Movement in Reserves Statement, the Group and PCC Balance Sheet, the Group and PCC Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies, and includes the police pension fund financial statements of West Midlands Police comprising the Police Pension Fund Account, the Net Assets Statement and the Notes to the Police Pension Fund. The notes to the financial statements include notes to the Comprehensive Income and Expenditure Statement, notes to the Movement in Reserves Statement, notes to the Balance Sheet, notes to the Cash Flow Statement and Joint Operations. 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 2019/20.

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 2020 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 properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; 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.

### The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Chief Finance Officer to the Police and Crime Commissioner and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Police and Crime Commissioner and group's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Police and Crime Commissioner and group's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

# Audit 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 to the Police and Crime Commissioner's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer to the Police and Crime Commissioner 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.

In our evaluation of the Chief Finance Officer to the Police and Crime Commissioner's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Police and Crime Commissioner's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Police and Crime Commissioner's and group's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Police and Crime Commissioner's and group's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Police and Crime Commissioner or group will continue in operation.

## Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings

We draw attention to Note 4 of the financial statements, which describes the effects of

the Covid-19 pandemic on the valuation of the group land and buildings as at 31 March 2020. As, disclosed in Note 4 to the financial statements, the impact of Covid-19 has affected market valuations for areas including the real estate market. The extent of that impact at the Balance Sheet date was not fully realised. The valuers employed by the PCC have reported under material valuation uncertainty regulations and advised that there is a need for frequent review of the portfolio. Our opinion is not modified in respect of this matter.

## Other information

The Chief Finance Officer to the Police and Crime Commissioner is responsible for the other information. The other information comprises the information included in the Statement of Accounts 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.

## 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 Edition' 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, 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 to the Police and Crime Commissioner for the financial statements

As explained more fully in the Statement of Responsibilities set out on pages 27 to 28, 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 to the Police and Crime Commissioner. The Chief Finance Officer to the Police and Crime Commissioner 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 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer to the Police and Crime Commissioner 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 to the Police and Crime Commissioner's 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](http://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 April 2020, 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 2020.

### 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 April 2020, 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 2020.

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.

### **LEITHER**

### Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Police and Crime Commissioner for the West Midlands in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

### **IORI**

### 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 2020. 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 2020.

# Audit opinion

## 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.

[Signature]

Alex Walling, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

[Date]

# 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 of the West Midlands (the 'Chief Constable') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement for the Chief Constable, the Movement in Reserves Statement for the Chief Constable, the Balance Sheet for the Chief Constable, the Cash Flow Statement for the Chief Constable and notes to the accounts, including a summary of significant accounting policies, and include the police pension fund financial statements comprising the Police Pension Fund Account, the Net Assets Statement and the Notes to the Police Pension Fund Account. The notes to the financial statements include notes to the accounts, notes to the Comprehensive Income and Expenditure Statement for the Chief Constable, notes to the Balance Sheet for the Chief Constable, and Joint Operations. 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 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Chief Constable as at 31 March 2020 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; 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.

### The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Chief Finance Officer to the Chief Constable of West Midlands Police and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Chief Constable's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Chief Constable's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

### 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 to the Chief Constable of West Midlands Police's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or



# Audit opinion

- the Chief Finance Officer to the Chief Constable of West Midlands Police 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.

In our evaluation of the Chief Finance Officer to the Chief Constable of West Midlands Police's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Chief Constable's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Chief Constable's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Chief Constable's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Chief Constable will continue in operation.

## Emphasis of Matter – effects of Covid-19 on the valuation of LGPS pension fund assets

We draw attention to Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's share of the pension fund's property investments as at 31 March 2020. As, disclosed in note 4 to the financial statements, the impact of Covid-19 has affected market valuations for areas including the real estate market. The extent of that impact at the Balance Sheet date was not fully realised. Our opinion is not modified in respect of this matter.

## Other information

The Chief Finance Officer to the Chief Constable of West Midlands Police is responsible for the other information. The other information comprises the information included in the

Statement of Accounts, other than the 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 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 'delivering good governance in Local Government Framework 2016 Edition' 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

# Audit opinion

financial statements in the Statement of Accounts, 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 to the Chief Constable of West Midlands Police for the financial statements

As explained more fully in the Statement of Responsibilities set out on pages 21 and 22, 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 to the Chief Constable of West Midlands Police. The Chief Finance Officer to the Chief Constable of West Midlands Police 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 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer to the Chief Constable of West Midlands Police 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 to the Chief Constable of West Midlands Police 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## 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 April 2020, 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 2020.



# Audit opinion

## 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 April 2020, 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 2020.

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.

**[EITHER]**

## Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Chief

Constable for the West Midlands in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

**[OR]**

## 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 2020. 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 2020.

## 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]

Alex Walling, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor

**Bristol**

**[Date]**



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