



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

Year ended 31 March 2020

December 2020



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out for the West Midlands Police and Crime Commissioner ('the PCC') and West Midlands Chief Constable and the financial statements of the group, the PCC and the Chief Constable for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the PCC and the Chief Constable and their external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the PCC and the Chief Constable (as those charged with governance) in communication which took place in November 2020.

Our work

Materiality

We determined materiality for the audit of the PCC and Chief Constable's financial statements to be £9,900,000, which is c1.5% of the PCC's gross revenue expenditure. This was the lowest materiality of the Group, PCC and Chief Constable's financial statements.

Financial Statements opinion

We gave an unqualified opinion on the PCC and Chief Constable's financial statements on 30 November 2020.

- We included an emphasis of matter paragraph in our report for the PCC and the group in respect of the material uncertainty over valuations of the PCC's land and buildings due to the Coronavirus pandemic.
- The Chief Constable's report will include a similar emphasis of matter paragraph relating to the material uncertainty on the valuation of investment properties within the portfolio of the Local Government Pension Scheme again due to the Coronavirus pandemic.

Neither of these affect our opinion that the statements give a true and fair view of the PCC's, Chief Constable's and also the group's financial position and its income and expenditure for the year.

Whole of Government Accounts (WGA)

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

Respective responsibilities

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

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

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

Executive Summary

Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the PCC and Chief Constable had put in place proper arrangements to ensure economy, efficiency and effectiveness in their use of resources. We reflected this in our audit opinions issued on 30 November 2020.
Certificate	We plan to certify that we have completed the audit of the accounts of the PCC and the Chief Constable in accordance with the requirements of the Code of Audit Practice after we have finalised our work on the whole of government consolidation work.

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.

Grant Thornton UK LLP
December 2020

Audit of the Financial Statements

Our audit approach

Materiality

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

We determined materiality for the audit of the PCC and the Chief Constable's group financial statements to be £9,900,000, which is c1.5% of the Chief Constable's gross revenue expenditure. We used this benchmark as, in our view, users of the PCC and Chief Constable's financial statements are most interested in where the PCC and Chief Constable have spent their revenue in the year.

We set a lower threshold of £500,000, above which we reported errors to the PCC and Chief Constable in our Audit Findings Report.

The scope of our audit

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

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

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Office of the Police and Crime Commissioner and the Force and with the financial statements included in the Statement of Accounts on which we gave our opinions.

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

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

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

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Covid-19 (Group, PCC and Chief Constable)</p> <p>The global outbreak of the Coronavirus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. This impacted 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"> - Remote working arrangements and redeployment of staff to critical front line duties placing pressure on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation; - Volatility of financial and property markets increasing 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; - Financial uncertainty requiring 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 - Disclosures within the financial statements requiring 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. <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>As part of our audit work we have:</p> <ul style="list-style-type: none"> • 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; • 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; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and pension fund net liability valuations; • evaluated management’s assumptions that underpin the revised financial forecasts and the impact on management’s going concern assessment; and • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. 	<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, reporting an additional potential financial statement risk in respect of Covid-19. We have also considered the impact on our VfM approach.</p> <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 included standard reference to the macroeconomic conditions arising from Brexit and Covid-19.</p>

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings (Group and PCC) 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>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.</p>	<p>As part of our audit work, we:</p> <ul style="list-style-type: none"> 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 evaluated the competence, capabilities and objectivity of the valuation expert discussed with the valuer and confirmed in writing the basis upon which the valuations were carried out challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding engaged our own valuer (Wilks Head & 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 tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the asset register, and 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. 	<p>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 referred to this disclosure in an Emphasis of Matter paragraph in our audit report.</p> <p>We have not identified any further issues in respect of valuations of the PCC's property which we wish to bring to your attention.</p>

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension liability (Group, PCC and the Chief Constable) 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>We therefore identified valuation of the group's pension fund net liabilities as a significant risk.</p>	<p>As part of our audit work, we:</p> <ul style="list-style-type: none"> • 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 • evaluated the instructions issued by management to their management expert (the actuaries) for this estimate and the scope of the actuary's work • assessed the competence, capabilities and objectivity of the actuaries who carried out the Group's pension fund valuation • assessed the accuracy and completeness of the information provided by the Group to the actuaries to estimate the liability • 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 • 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 	<p>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 referred to this disclosure in an Emphasis of Matter paragraph in our audit report.</p> <p>We have not identified any further issues in respect of valuations of the PCC's property which we wish to bring to your attention.</p>

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of internal controls (Group, PCC and the Chief Constable)</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Chief Constable and PCC face external scrutiny of their spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business, as a significant risk of material misstatement.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>As part of our audit work, we:</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals analysed the journals listing and determine the criteria for selecting high risk unusual journals are in the process of testing unusual journals recorded for appropriateness and corroboration gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. 	<p>There are no material issues arising in respect of the identified risk.</p>
<p>The revenue cycle includes fraudulent transactions (rebutted) (Group, PCC and the Chief Constable)</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>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"> there is little incentive to manipulate revenue recognition opportunities to manipulate revenue recognition are very limited 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. 	<p>We do not consider this to be a significant risk for the PCC.</p> <p>For the Chief Constable, revenue is recognised to fund costs and liabilities relating to resources consumed in the direction and control of day-to-day policing. This is shown in the Chief Constable's financial statements as a transfer of resources from the PCC to the Chief Constable for the cost of policing services. Income for the Chief Constable is received entirely from the PCC. Therefore we have determined that the risk of fraud arising from revenue recognition is not a significant risk for the Chief Constable</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the PCC, Group and the Chief Constable's financial statements on 30 November 2020.

Preparation of the financial statements

The PCC and Chief Constable presented us with draft group accounts in June 2020, in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

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.

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.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the PCC and Chief Constable as those charged with governance during November 2020.

We 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.

Annual Governance Statement and Narrative Report

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

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

Whole of Government Accounts (WGA)

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

Certificate of closure of the audit

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

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

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

Key findings

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

The risks we identified and the work we performed are set out overleaf. We continued our review of relevant documents up to the date of giving our report, and did not identify any further significant risks. 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.

As part of our Audit Findings report agreed with the PCC and Chief Constable in November 2020, we agreed recommendations to address our findings.

Overall Value for Money conclusion

We are satisfied that in all significant respects the PCC and Chief Constable have put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

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 £3.7 million 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
Force sub-total	579,885	559,748	(20,137)	
OPPC	12,928	9,126	(3,802)	To be carried forward to 2020/21
Total	592,813	568,874	(23,939)	

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 £3.701 million 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**Financial sustainability continued****Findings and Conclusion**

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

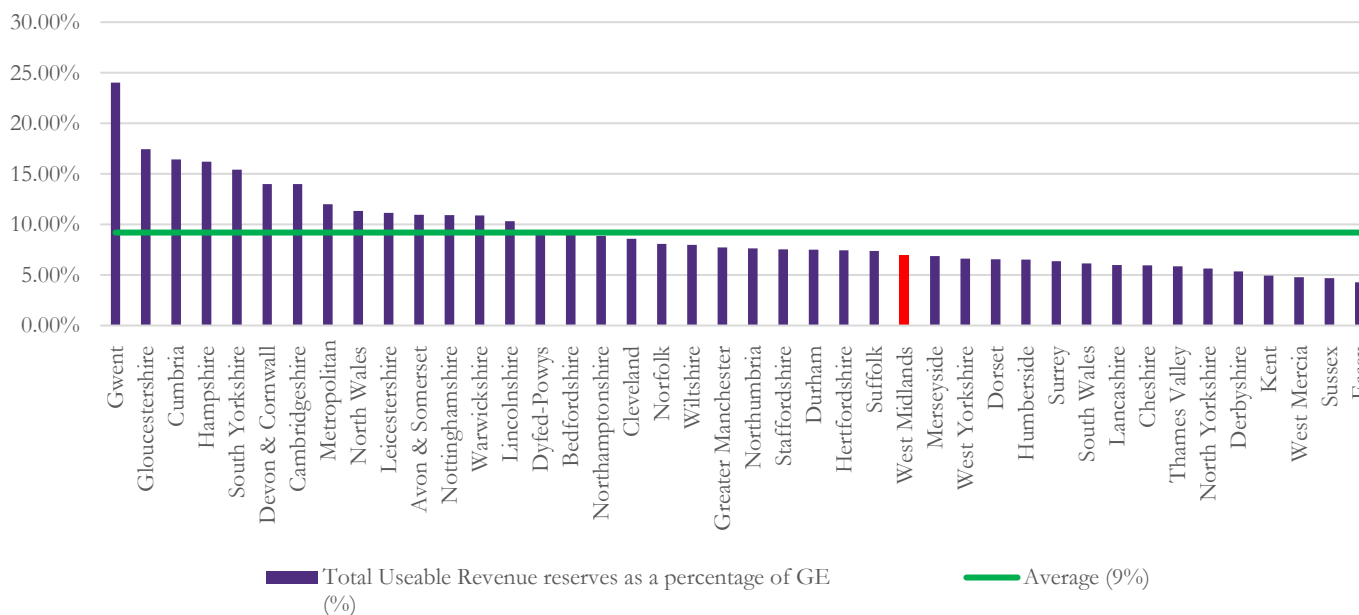
Financial sustainability continued

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>Covid-19</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>Financial impact</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>Business continuity</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>

A. Reports issued and fees

Audit fees	Proposed fee
Police and Crime Commissioner scale fee	32,623
Additional audit fee proposed at the planning stage	6,662
Chief Constable scale fee	17,325
Additional audit fee proposed at the planning stage	3,515
Total proposed audit fees (excluding VAT) at planning	£60,125
Police and Crime Commissioner Covid related additional fee	7,420
Chief Constable Covid related additional fee	3,126
Total proposed audit fees (excluding VAT) on completion	£69,144

Reports issued

Report	Date issued
Audit Plan	March 2020
Audit Plan addendum (post Covid-19)	April 2020
Audit Findings Report	November 2020
Annual Audit Letter	December 2020

We confirm above our final fees charged for the audit and final reports issued.

There were no fees for the provision of non audit services.

The Joint External Audit Plan for the Police and Crime Commissioner and Chief Constable for the West Midlands, presented in March 2020, included £10,177 of proposed addition fees to the scale fees to take account of the additional scepticism required on the audits, the raising of the bar by our regulator and the further work arising from the value of land and building valuations and pension liabilities. This is reflected in the total proposed audit fees at planning above.

Since the presentation of the audit plan, we have added a significant risk to the audit following the impact of Covid-19. We have now reflected on the time taken to discharge our responsibilities this year and are proposing a further increase in fees of £10,546 in addition to those proposed at the planning stage of the audit. This brings the total proposed audit fee up to £69,144 + VAT. Further details on the breakdown is provided on the next page.

This further charge has not been entered into lightly but reflects only a proportion of the significant additional work we have had to undertake this year to discharge our responsibilities.

We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by four months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached <https://www.frc.org.uk/covid-19-guidance-and-advice> (see guidance for auditors) sets out the expectations of the FRC.

We have discussed and agreed these additional fees with the Director of Commercial Services for the Chief Constable and the Chief Finance Officer to the PCC. Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

Appendix A – Audit fee variations – Further analysis

Final proposed audit fees

The table below shows the proposed variations to the original scale fee for 2019/20 subject to PSAA approval.

Audit area	PCC £	CC £	Rationale for fee variation
Scale fee	32,623	17,325	
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	0	2,650	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms in respect of IAS 19 needs to improve across public sector audits. Accordingly, we plan to increase the level of scope and coverage of our work in respect of IAS 19 this year to reflect the expectations of the FRC and ensure we issue a safe audit opinion. Specifically, we have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting. As the Chief Constable accounts for the majority of pension liabilities, we have charged the Chief Constable for this work. We estimate that the cost of this additional work will be £2,650.
PPE Valuation – work of experts	2,500	0	The FRC has determined that auditors need to increase the quality of audit challenge on PPE valuations across the sector. We have increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. We estimate that the cost of the additional work required will be in the region of £2,500.
PPE Valuation – Cost of auditor's expert	1,000	0	The FRC has also determined that auditors need to ensure that work is of the highest standard. We have therefore engaged our own audit expert – (Wilks Head & Eve) to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. This fee reflects the partial cost of the fee payable to the auditor's expert. We estimate that the cost of the auditors expert will be in the region of £1,000.
Increased challenge and depth of work	1,662	865	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms in respect of IAS 19 needs to improve across public sector audits. This increase in fee reflects the increased level of professional skepticism required of auditors. We have apportioned this fee across the both bodies proportionately to the scale fee.
Covid-19	7,393	3,126	<p>Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes:</p> <ul style="list-style-type: none"> Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties. Management's assumptions and estimates - there is increased uncertainty over many estimates including pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260. Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including the delays in receiving accounts, quality of working papers, and delays in responses. These are understandable and arise from the availability of the relevant information and/or the availability of key staff (due to shielding or other additional Covid-19 related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.
Revised scale fee (to be approved by PSAA)	45,178	23,966	Total proposed fees for 2019/20 are £69,144 + VAT



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