

Joint External Audit Plan

West Midlands Police and Crime Commissioner and
West Midlands Chief Constable

Year ending 31 March 2021

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Contents



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Key matters

Factors

Police sector developments

Throughout the 2020/21 financial year, the UK Government has reaffirmed its commitment to delivering the 20,000 officer uplift programme, this commitment is well received. There remain challenges for the sector to ensure that this investment meets the changing demands on police time and the increasing expectations of the public they serve.

Due to the economic uncertainties brought about by the Covid-19 pandemic, the police sector continues to operate within the constraints of a one year funding settlement. Precept flexibility remains the key source of growth in funding to the sector, which has been utilised by many Police and Crime Commissioners nationally.

Impact of Covid-19 pandemic

The outbreak of the coronavirus (Covid-19) pandemic has impacted on the normal operations of the Force. The Force and the police sector nationally has had to work differently at all levels to be able to enforce ever-changing Covid-19 regulations and deliver business as usual policing.

With short notice, the Chief Constable and PCC were able to implement remote working across the Force and the Office of the Police and Crime Commissioner. Both have utilised enabling technology to ensure that the organisations have been able to work flexibly to respond to the changing demand on their time. This included adapting to the lockdown measures in place to clear backlogs in operational workloads and changing operational focus as national regulations and laws changed throughout the year.

Financially, the Covid-19 pandemic has created some cost pressures and short-term loss of fees and charges revenue. In the short term, policing has been impacted less than other public sector bodies, financially. Income is largely unaffected, given the majority of it is grant funded or raised through taxation, although there has, as noted, been an impact on fees and charges revenue. Costs have also been impacted by increased need for personal protective equipment and overtime, although this has, to an extent, been offset by reductions in crime levels during the early part of the pandemic and through some government Covid-19 related funding. The true financial impact of the pandemic is likely to materialise over the medium-term as public finances are squeezed in the post-pandemic environment, and in particular should council tax and business rates collections fall as the economic impact of the pandemic is realised.

The PCC and Force are now considering how to take forward the benefits from remote working necessitated by the pandemic. This includes further use of flexible working, effective use of office space and reviewing service delivery models to ensure that residents and local communities continue to receive cost effective, efficient quality policing.

Our response

- We will continue to provide you with sector updates via our Joint Independent Audit Committee updates.
- We will consider your arrangements for managing the impact of the Covid-19 pandemic as part of our Value for Money work.

Key matters

Factors

Financial position

2020/21 has been a challenging year for all public sector bodies, with unprecedented levels of change, both in terms of demand, and at an operational level. The financial pressure placed on the Force as a result of the Covid-19 pandemic is forecast to be £11.8m. This is offset in part by grants and reimbursements of £8.7m. These grants and reimbursements have been towards the purchase of personal protective equipment, overtime for enforcement patrols, and lost income. The remaining net cost of Covid-19 may require the Force to utilise its reserves.

These cost pressures are offset by a forecast underspend for the year of £14.6m, excluding the impact of Covid-19. This underspend is driven by £11.2m underspend against budgeted capital financing costs.

The future of police funding remains uncertain as funding arrangements that were meant to be in place by April 2020 have been delayed until at least 2022, however, the PCC anticipates making a net contribution to reserves of £4.1m over the next three years.

The PCC is proposing a balanced budget for 2021/22 which includes a net contribution to reserves of £0.3m, a council tax precept increase of £15 for a band D property, and the recruitment of an additional 360 police officers by March 2022 as part of the national uplift programme.

The capital programme is currently being reworked, to take account of the planned uplift in police officer numbers, and the impact of Covid-19. The capital programme as it stands includes spend of £65.2m in 2021/22, and a further £85.0m by 2024/25.

Police and Crime Plan

The PCC's Police and Crime Plan 2016-20 was updated in the early part of 2020 in response to the Covid-19 pandemic. The Emergency Police and Crime Plan 2020 set out an additional chapter of the Police and Crime Plan, setting out how the PCC would work with the Force in their response to Covid-19.

David Jamieson has been the West Midlands Police and Crime Commissioner since 2014, but will not be standing for re-election in May, when a new PCC will therefore be elected.

Our response

- We will consider your arrangements for managing and reporting your financial resources and assessing your financial resilience as part of our audit in completing our Value for Money work.

- We will consider your arrangements for delivery of the Police and Crime Plan as part of our Value for Money work.

Key matters

Factors

Accounting and auditing developments

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM) There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures includes significant enhancements in respect of the audit risk assessment process for accounting estimates. As part of this process auditors also need to obtain an understanding of the effectiveness of the role of those charged with governance relating to accounting estimates adopted by management, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Although the implementation of IFRS 16 has been delayed, audited bodies still need to include disclosures in their 2020/21 statements to comply with the requirements of IAS 8. As a minimum, we would expect the PCC and Chief Constable to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases. If the impact of IFRS 16 is not known or reasonably estimable, the accounts should state this.

In the prior year the PCC's valuer reported a material uncertainty regarding the valuations of properties due to the Covid-19 pandemic. In addition, there was a material uncertainty in relation to the valuation of the pension fund's investments which impacted both the Force and the PCC's position. We will monitor the position for the 31 March 2021 valuations.

Our response

- The PCC and Chief Constable's valuer reported a material uncertainty in regards to the valuation of properties in 2019/20 due to the Covid-19 pandemic and we expect significant uncertainty will continue in 2020/21. We identified a significant risk in regards to the valuation of properties – refer to page 9.
- Where any actions have been agreed in respect of matters identified through previous audit work, either on the financial statements or in respect of work on arrangements to secure VFM, we will assess the progress against previously agreed recommendations.
- Members of the finance team attended our annual final accounts workshop during February, hosted by our highly experienced public sector assurance team as they help you prepare for your 2021 financial statements audit by highlighting potential risk areas and providing you with practical advice.
- We will continue to provide you with sector updates via our Audit Committee updates.
- We will liaise with the PCC's valuer to clarify any potential material uncertainties in 2020-21.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audits of both the West Midlands Police and Crime Commissioner ('the PCC') and the West Midlands Chief Constable ('the Chief Constable') for those charged with governance. Those charged with governance are the PCC and the Chief Constable.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of PCC and Chief Constable. We draw your attention to both of these documents on the PSAA website.

Scope of our audit

The scope of our audits is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- PCC's, Chief Constable's and group's financial statements that have been prepared by management with the oversight of those charged with governance (the PCC and the Chief Constable); and
- Value for Money arrangements in place at each body for securing economy, efficiency and effectiveness in their use of resources.

The audit of the financial statements does not relieve management, the PCC, or the Chief Constable of their responsibilities. It is the responsibility of the bodies to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the PCC and the Chief Constable are fulfilling these responsibilities.

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

Group Audit

The PCC and Chief Constable are required to prepare group financial statements that consolidate the financial information of the PCC and Chief Constable.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- The valuation of land and buildings may be materially misstated (PCC and group)
- The valuation of the net pension liability may be materially misstated (Chief Constable and group)
- The risk of management override of controls (both PCC and Chief Constable)

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £10,275k (PY £9,900k) for the group, the PCC and the Chief Constable, which equates to approximately 1.5% of the PCC's prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £514k (PY £500k).

Value for Money arrangements

Our risk assessment procedures regarding the PCC's and Chief Constable's arrangements to secure value for money have not identified any risks of significant weaknesses in arrangements. Our work will focus on the arrangements in each of the following areas, for both the PCC and the Chief Constable:

- Changes in response to the Covid-19 pandemic.
- Setting the Medium Term Financial Plan and capital strategy and achieving financial sustainability.
- Delivery of the Police and Crime Plan.
- Service transformation and innovation.
- Working with your key partners to deliver services efficiently and improve the lives of local residents.
- Governance arrangements, and in particular consideration of decision making between the Force and the PCC.

Audit logistics

Our interim visit is taking place in March 2021, and our final visit will take place from July, once draft financial statements are available. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

Our fee for the audit has not yet been confirmed (PY: £45,178 for the PCC and £23,966 for the Chief Constable). Due to the changes in approach we anticipate that a fee variation will be needed. We will discuss this with management and those charged with governance in due course.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
West Midlands Police and Crime Commissioner	Yes		<ul style="list-style-type: none"> management override of internal controls valuation of land and buildings 	Full scope audit performed by Grant Thornton UK LLP
West Midlands Chief Constable	Yes		<ul style="list-style-type: none"> management override of internal controls valuation of net pension fund liability 	Full scope audit performed by Grant Thornton UK LLP

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Presumed risk of fraud in revenue recognition ISA (UK) 240	n/a	<p>Under ISA (UK) 240 there is a rebuttable presumed risk of material misstatement due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA 240, and the nature of the revenue streams of each of the PCC and the Chief Constable, we have determined that the presumed risk of material misstatement due to the improper recognition of revenue can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; • revenue received by the Chief Constable comes from the PCC; and • the culture and ethical frameworks of public sector bodies, including the West Midlands Chief Constable and the West Midlands Police and Crime Commissioner, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk for the Chief Constable, PCC or Group.</p>	
Risk of fraud related to expenditure recognition PAF Practice Note 10	n/a	<p>In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk of material misstatements due to fraud related to revenue recognition.</p> <p>Having considered the nature of the expenditure streams of each of the PCC and the Chief Constable, we have determined that there is no significant risk of material misstatement arising from improper expenditure recognition.</p>	
Management over-ride of controls ISA (UK) 240	Chief Constable, PCC and Group	<p>Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management over-ride of controls is present in all entities.</p> <p>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, and 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>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	PCC and Group	<p>The PCC revalues its land and buildings on a five-yearly basis.</p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£151.6 million as at 31 March 2020) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management will need to ensure that the carrying value in the PCC's (and group) financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met; • challenge the information and assumptions used by the valuer to assess the completeness and consistency with our understanding; • engage our own valuer to assess the instructions issued by the PCC to their valuer, the scope of the PCC's valuers' work, the PCC's valuers' reports and the assumptions that underpin the valuations; • test revaluations made during the year to see if they had been input correctly into the PCC's asset register; and • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different from current value at year end.
Valuation of the pension fund net liability	Chief Constable and Group	<p>The group's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£7,826.1 million in the group's balance sheet at 31 March 2020) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the group's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update 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; • evaluate the instructions issued by management to their management experts (the actuaries for the Local Government Pension Scheme and Police Pension Scheme) for this estimate and the scope of the actuaries' work; • assess the competence, capabilities and objectivity of the actuaries who carried out the group's pension fund valuations; • assess the accuracy and completeness of the information provided by the group to the actuaries to estimate the liabilities; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial reports from the actuaries; • undertake 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; and • obtain assurances from the auditor of the West Midlands Pension Fund (WMPF) as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the WMPF and the fund assets valuation in the WMPF financial statements.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

We identified one recommendation in our 2019/20 audit in relation to the PCC's estimation process for the valuation of land and buildings.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do the PCC and Chief Constable:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the PCC and Chief Constable we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings
- Depreciation
- Valuation of police officers pension liability
- Valuation of the local government pension liability

The PCC and Chief Constable's Information systems

In respect of the PCC and Chief Constable's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the PCC and Chief Constable uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the PCC and Chief Constable (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- **What the assumptions and uncertainties are;**
- **How sensitive the assets and liabilities are to those assumptions, and why;**
- **The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and**
- **An explanation of any changes made to past assumptions if the uncertainty is unresolved.**

Planning enquiries

As part of our planning risk assessment procedures we have included inquiries within our management letters shared with the PCC and Chief Constable. We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read each of your Narrative Reports and Annual Governance Statements and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give our opinions and our knowledge of the PCC and Chief Constable.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statements are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - issuing an advisory notice under section 29 of the Act
- We certify completion of our audits.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Group's, PCC's and Chief Constable's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report.

Materiality

The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materialities based on a proportion of the gross expenditure of the group, the PCC and the Chief Constable for the previous financial year. In the prior year we used the same benchmark. For our audit testing purposes we apply the lowest of these materialities, which is £10,275k (PY £9,900k), which equates to approximately 1.5% of the PCC's prior year gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £100k for disclosures relating to senior officers' remuneration.

We will reconsider planning materiality if, during the course of our audit engagement, we become aware of facts or circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the PCC and Chief Constable any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance.

ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group, the PCC and the Chief Constable, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £514k (PY £500k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the PCC and Chief Constable to assist it in fulfilling its governance responsibilities.

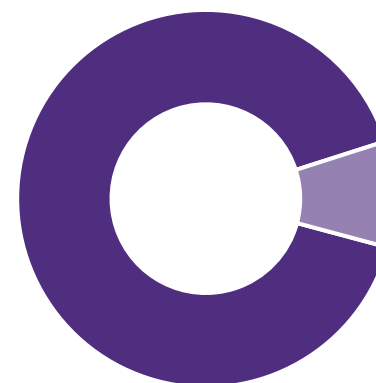
Prior year gross expenditure

£869.7m Group

£685.0m PCC

£851.9m CC

(note expenditure has been adjusted for the impact of McCloud in 2019/20, which was non-recurring)



■ Prior year gross expenditure

■ Materiality

Materiality

£10,275k

Financial statements materiality to be used for the purposes of our audit (PY: £9,900k)

£514k

Misstatements reported to the PCC and Chief Constable (PY: £500k)

Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary qualified / unqualified approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out here:



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in either of the bodies' arrangements for securing economy, efficiency and effectiveness in their use of resources that we needed to perform further procedures on. Whilst our planning assessment did not identify any risks of significant weaknesses in arrangements at this stage, we have highlighted key areas of focus for our work below.

We may need to make recommendations following the completion of our work. The potential types of recommendations we could make are also set out below.

Key areas of focus

The Police operating environment has been impacted by the pandemic. The future funding regime remains uncertain and this lack of certainty will impact on the PCC's and Force's ability to undertake long term planning.

Our risk assessment procedures regarding the PCC's and Chief Constable's arrangements to secure value for money have not identified any risks of significant weaknesses in arrangements. Our work will primarily focus on the arrangements in each of the following areas, for both the PCC and the Chief Constable, but may increase in scope as further work is performed.

- Changes in response to the Covid-19 pandemic.
- Setting the Medium Term Financial Plan and capital strategy and achieving financial sustainability.
- Delivery of the Police and Crime Plan.
- Service transformation and innovation.
- Working with your key partners to deliver services efficiently and improve the lives of local residents.
- Governance arrangements, and in particular consideration of decision making between the Force and the PCC.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit logistics and team



Iain Murray, Key Audit Partner

Iain will be the main point of contact for the PCC, Chief Constable and Committee members. He will share his wealth of knowledge and experience across the sector providing challenge and sharing good practice, and ensure our audit is tailored specifically to you. Iain is responsible for the overall quality of our audit work, and will sign your audit opinions.



Laurelin Griffiths, Audit Manager

Laurelin will work with senior members of the finance team, ensuring testing is delivered and any accounting issues that arise are addressed on a timely basis. She will be responsible for the delivery of our work on your arrangements in place to secure value for money, will attend Joint Audit Committee and liaison meetings with Iain, undertake reviews of the team's work, and ensure that our reports are clear, concise and understandable.



Kirsty Lees and Glenroy Dacosta, Auditors

Kirsty and Glenroy will work directly with the finance team during our 'on site' visits and manage the day-to-day work of the more junior members of our audit team.



They will complete work on the more complex areas of the audits of the PCC and the Chief Constable, and will provide support on the delivery of our work on your arrangements in place to secure value for money.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- Produce draft financial statements of good quality in line with the timetable you have agreed with us, including all notes, the Narrative Reports and the Annual Governance Statements.
- Ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that share with you
- Ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing.
- Ensure that all appropriate staff are available throughout the planned period of the audit, unless otherwise agreed
- Respond promptly and adequately to audit queries.
- Engage appropriately with the PCC's and Chief Constable's experts to provide clarity and detail over their work to enable auditors to challenge the accounting and valuation judgements used.

Audit fees

PSAA awarded a contract of audit for the West Midlands PCC and the West Midlands Chief Constable to begin with effect from 2018/19. The scale fee in the contract was £32,623 for the PCC audit and £17,325 for the Chief Constable. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISAs which are relevant for the 2020/21 audit.

The 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years, which will result in an increased fee.

Additionally, across all sectors and firms, the FRC has set out 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, as noted in the number of revised ISAs issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for property valuations estimates, which has been included in our proposed audit fee. Our proposed fee for 2020/21 has not yet been finalised, but due to the changes in approach we anticipate that a fee variation will be needed. We will discuss this with management and those charged with governance in due course.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
PCC Audit	£32,623	£45,178	£TBC
Chief Constable audit	£21,825	£23,966	£TBC
Total audit fees (excluding VAT)	£54,448	£69,144	£TBC

Assumptions

In setting these fees, we have assumed that the PCC and Chief Constable will:

- prepare good quality sets of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

	PCC	Chief Constable
Scale fee published by PSAA	£32,623	£17,325
<i>Ongoing increases to scale fee first identified in 2019/20</i>		
Raising the bar/regulatory factors	£1,662	£865
Enhanced audit procedures for Property, Plant and Equipment	£3,500	£0
Enhanced audit procedures for Pensions	£0	£2,650
Covid-19 impact	£7,393	£3,126
Audit fee 2019/20	£45,178	£23,966
<i>New issues for 2020/21</i>		
Additional work on Value for Money (VfM) under new NAO Code	£TBC	£TBC
Increased audit requirements of revised ISAs	£TBC	£TBC
Total audit fees (excluding VAT)	£TBC	£TBC

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 (Revised 2019) 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. 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.

Other services

No other services provided by Grant Thornton were identified.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.










Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance




The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	✓
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	✓
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	✓
ISA (UK) 230 – Audit Documentation	January 2020	✓
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	✓
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	✓
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	



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