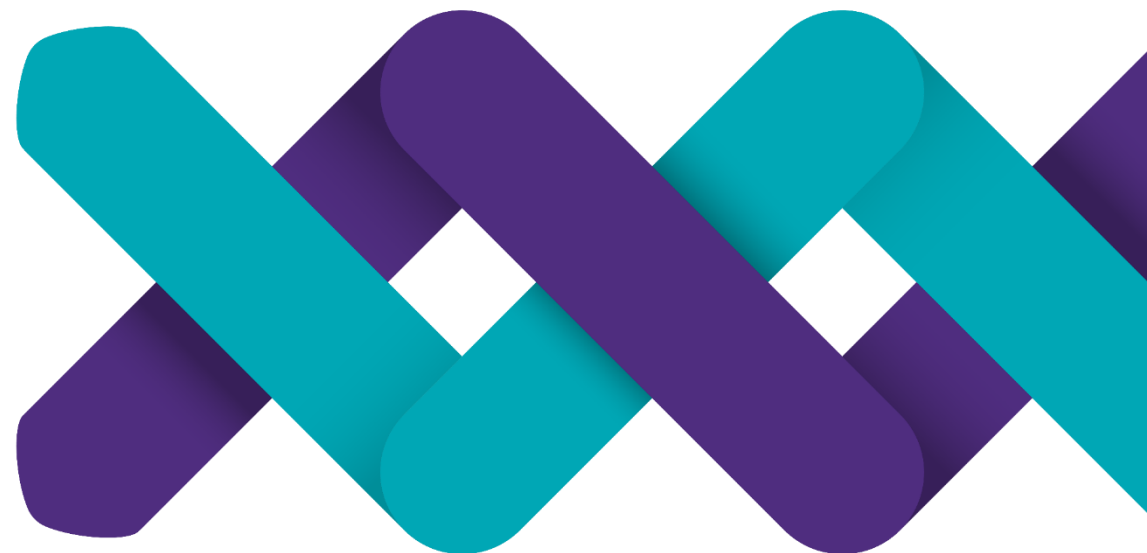


Audit Progress Report and Sector Update

West Midlands Police and Crime Commissioner and Chief Constable
Year ending 31 March 2021

March 2021



Contents and Introduction



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This paper provides the Joint Audit Committee with a report on progress in delivering our responsibilities as your external auditor.

The paper also includes a summary of emerging national issues and developments that may be relevant to you.

Members of the Joint Audit Committee can find further useful material on our website where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the following link to be directed to the website <https://www.grantthornton.co.uk/>.

If you would like further information on any items in this briefing or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.



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Progress at March 2021

Financial Statements Audit

We have started planning for the 2020/21 financial statements audit and have issued a detailed Joint Audit Plan, setting out our proposed approach to the audit of the Group, PCC and Chief Constable 2020/21 financial statements.

We commenced our planning work in February 2021. This work included:

- Updating our review of the PCC's and Chief Constable's control environments
- Updating our understanding of your financial systems
- Reviewing Internal Audit reports on core financial systems
- Early work on emerging accounting issues

We have issued our audit plan summarising our approach to key risks on the audit, which is included on the agenda for this meeting.

Value for Money

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which came 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.

Further detail on the NAO's revised approach to VFM work can be found [at this link](#).

Due to the change in approach, a fee variation will be needed for 2020/21 and your Engagement Team will be in touch in due course to discuss this.

The new Code of Audit Practice issued by the NAO can be found [at this link](#).

Other areas

Meetings

We met with Finance Officers in February as part of audit planning for 2020/21, and our handover process from the outgoing engagement lead and manager. We continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

Our annual chief accountants workshop recently took place with finance officers from West Midlands Police in attendance. This was an opportunity for your finance officers to speak to peers and gain an understanding of the key changes impacting this year's accounts.

Audit Deliverables

2020/21 Deliverables	Planned Date	Status
Accounts Audit Plan We are required to issue a detailed accounts audit plan to those charged with governance, setting out our proposed approach in order to give an opinion on the 2020-21 financial statements.	March 2021	Included in these papers
Interim Audit Findings We will report to you the findings from our interim audit within our Progress Report.	July 2021	Not yet due
Audit Findings (ISA260) Report The Audit Findings Report will be reported to the Joint Audit Committee, once agreed with management and those charged with governance	September 2021	Not yet due
Auditors Report This is the opinion on your financial statements and annual governance statement.	September 2021	Not yet due
Auditor's Annual Report The key output from local audit work on arrangements to secure VFM is an annual commentary on arrangements, which will be published as part of the Auditor's Annual Report (AAR). A draft of the AAR will be discussed with management and those charged with governance. The final version of the AAR will be published at the same time as the Auditors Report	September 2021	Not yet due

Sector Update

Policing services are rapidly changing. Increased demand from the public and more complex crimes require a continuing drive to achieve greater efficiency in the delivery of police services. Public expectations of the service continue to rise in the wake of recent high-profile incidents, and there is an increased drive for greater collaboration between Forces and wider blue-light services.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider Police service and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from sector specialists](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and police sections on the Grant Thornton website by clicking on the logos below:

A teal rectangular button with the text "Public Sector" in white, sans-serif font.

Public Sector

A dark purple rectangular button with the text "Police" in white, sans-serif font.

Police

Home Office

Police to receive more than £15 billion to fight crime and recruit more officers

Policing will receive up to £15.8 billion to support safer communities and cut crime.

The 2021 to 2022 funding package will include over £400 million to recruit 20,000 extra officers by 2023, building on the success of the first year of the recruitment campaign – which has already delivered almost 6,000 additional police officers.

Alongside getting more officers out on the street, the funding settlement will enable policing to tackle serious violence and increase the number of specialist officers tackling terrorism and serious organised crime, including child sexual abuse and drug trafficking.

The 2021 to 2022 funding package means an increase of up to £636 million on last year, should police and crime commissioners (PCCs) take full advantage of police precept flexibility.

The government also recognises that, during the coronavirus pandemic, huge demands have been made of the police.

That is why it has provided additional support throughout, including £30 million of surge funding to help forces step up COVID-19 enforcement activities in 2020 to 2021, and why it reimbursed all additional personal protective equipment (PPE) purchased between March and July.

The full article can be accessed [here](#).



Home Office

Home Office

Fact sheet: Provisional Police Funding Settlement 2021/22

The Home Office has published the provisional police funding settlement for 2021/22.

The Government is proposing a total police funding settlement of up to £15.8 billion for the policing system in 2021/22. This includes funding to Police and Crime Commissioners (including capital), plus funding for counter-terrorism policing and funding for national priorities.

This is an increase of up to £636 million compared to the 2020/21 funding settlement.

The funding package includes:

- An additional £415 million Government funding to PCCs to drive the recruitment of 20,000 extra officers
- Up to an additional £288 million from council tax precept, subject to decisions by PCCs
- £1.1 billion for national priorities, including police technology

The Government has prioritised funding for Police and Crime Commissioners in this settlement. Overall funding available to PCCs will increase by up to £703 million next year – a 5.4% cash increase on the 2020/21 settlement – if PCCs make full use of their flexibility to increase precept

The fact sheet can be accessed [here](#).



Association of Police and Crime Commissioners

Police and Crime Commissioner Elections

Police and Crime Commissioners (PCCs) were elected for the second time on the 5th of May 2016 in 40 force areas across England and Wales. Every force area is represented by a PCC, except Greater Manchester and London, where PCC responsibilities lie with the Mayor.

The role of the PCCs is to be the voice of the people and hold the police to account. They are responsible for the totality of policing.

PCCs have been elected by the public to hold Chief Constables and the force to account, effectively making the police answerable to the communities they serve.

Under the terms of the Police Reform and Social Responsibility Act 2011, PCCs must:

- secure an efficient and effective police for their area;
- appoint the Chief Constable, hold them to account for running the force, and if necessary dismiss them;
- set the police and crime objectives for their area through a police and crime plan;
- set the force budget and determine the precept;
- contribute to the national and international policing capabilities set out by the Home Secretary; and
- bring together community safety and criminal justice partners, to make sure local priorities are joined up.

In March 2020 the Government announced the postponement of all local, mayoral and PCC elections for one year due to Coronavirus. They will now take place on Thursday 6 May 2021.

More information about the upcoming elections and the role of PCCs can be found [here](#).



Other News

Roads policing and road safety: How improved partnership working can resolve the post-Covid funding squeeze

With funding for policing and the wider public sector likely to be under significant pressure in the post-Covid economic landscape, resources for roads policing may be severely stretched.

There's speculation everywhere about what the legacy of the Covid era will be, with opinion divided about the extent to which we will return to the way we used to operate. But one thing is undeniable – the Government is going to have to take action to restore the public finances to health after spending £280bn on its response to the pandemic. All sectors will be affected by this, and policing is no exception.

Policing budgets had been recovering over the last couple of years following almost a decade of austerity. The 20,000 reduction in officer numbers that was experienced between 2010 and 2018 is in the process of being reversed and there was optimism about future growth both at force level and in national policing bodies. But all that is surely set to change when the time comes for a multi-year spending review.

The full article can be accessed [here](#).

The logo for Policinginsight, with 'Policing' in blue and 'insight' in red.

New NAO Code of Audit Practice for 2020

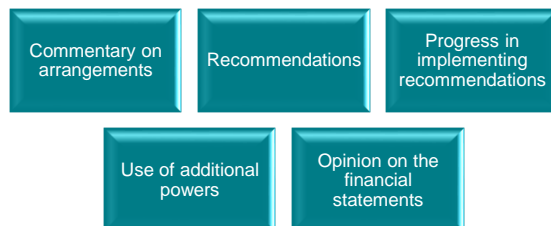
The NAO issued a new Code of Audit Practice which came into force on 1 April 2020 and applies to audits of 2020-21. The key change is an extension to the framework for VfM work. The NAO has prepared Auditor Guidance Note (AGN 03), which sets out detailed guidance on what VfM work needs to be performed. Public consultation on this ended 2 September.

The new approach to VfM re-focuses the work of local auditors to:

- promote more timely reporting of significant issues to local bodies;
- provide more meaningful and more accessible annual reporting on VfM arrangements issues in key areas;
- provide a sharper focus on reporting in the key areas of financial sustainability, governance, and improving economy, efficiency and effectiveness; and
- provide clearer recommendations to help local bodies improve their arrangements.

Under the previous Code, auditors had only to undertake work on VfM where there was a potential significant risk and reporting was by exception. Whereas against the new Code, auditors are required to undertake work to provide a commentary against three criteria set by the NAO – governance; financial sustainability and improving economy, efficiency and effectiveness.

A new Auditor's Annual Report presented at the same time as the audit opinion is the forum for reporting the outcome of the auditor's work on Value for Money. It is required to contain:



The '**Commentary on arrangements**' will include a summary under each of the three specified reporting criteria and compared to how the results of VfM work were reported in previous years, the commentary will allow auditors to better reflect local context and also to draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the body itself. The commentary will not simply be a description of the arrangements in place, but an evaluation of those arrangements.

Recommendations: Where an auditor concludes there is a significant weakness in a body's arrangements, they report this to the body and support it with a recommendation for improvement.

Progress in implementing recommendations: Where an auditor has reported significant weaknesses in arrangements in the previous year, the auditor should follow up recommendations issued previously and include their view as to whether the recommendations have been implemented satisfactorily

Use of additional powers: Where an auditor uses additional powers, such as making statutory recommendations or issuing a public interest report, this needs to be reported in the auditor's annual report.

Opinion on the financial statements: The auditor's annual report also needs to summarise the results of the auditor's work on the financial statements. This is not a replacement for the AFR, or a verbatim repeat of it – it is simply a summary of what the opinion audit found

The new approach is more complex, more involved and will subsequently increase the cost of audit. We will be discussing this with senior managers shortly.

To review the new Code and AGN03 click [here](#)



National Audit Office latest reports

Overview of the UK government's response to the COVID-19 pandemic

This report provides a summary of the UK government's response to COVID-19 to date. Significant outbreaks of disease are among the greatest risks faced by any society, threatening lives and causing significant disruption to public services and the economy. The scale and nature of the current COVID-19 pandemic and government's response is unprecedented in recent history. This report is the first of a programme of work to be undertaken by the National Audit Office (NAO) to support Parliament in its scrutiny of the UK government's response to COVID-19. The report covers the main actions taken by the UK government in England, as well as the funding provided to support responses in the devolved administrations of Northern Ireland, Scotland and Wales. It does not cover the individual responses in the devolved administrations, or the separate responses implemented by local authorities. The report covers the government's response up to 4 May 2020.

Click [here](#) to read more



Revised auditing standard: Auditing Accounting Estimates and Related Disclosures

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.

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 those charged with governance:

- 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 for our March 2021 audits

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 in all areas summarised above for all material accounting estimates that are included in the financial statements.

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

- Valuations of land and buildings, council dwellings and investment properties
- Depreciation
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates

Estimation uncertainty

Under ISA (UK) 540 (Revised December 2018) 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 disclose:
- 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.

How can you help

As part of our planning risk assessment procedures we routinely make a number of enquiries of management and those charged with governance, which include general enquiries, fraud risk assessment questions, going concern considerations etc. Responses to these enquires are completed by management and confirmed by those charged with governance. For our 2020/21 audit we will be making additional enquires on your accounting estimates in a similar way (which will cover the areas highlighted above). 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)

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 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 your business or any 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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