

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

Year ended 31 March 2021

08 December 2021



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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 PCC and Chief Constable 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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1. Headlines

This table summarises the key findings and other matters arising from the statutory audits of the Police and Crime Commissioner for the West Midlands ('the PCC') and the Chief Constable of West Midlands Police and the preparation of the PCC's and Chief Constable's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion the financial statements:

- give a true and fair view of the financial positions of the PCC and Chief Constable's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with each set of audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed remotely during July to September. Our findings are summarised on pages 5 to 15.

We have identified no adjustments to the financial statements or the reported financial positions of either the Chief Constable or the PCC. Audit adjustments are detailed in Appendix B.

Our follow up of recommendations from prior years' audits are detailed in Appendix A. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion for the PCC's financial statements (including the financial statements which consolidate the financial activities of the Chief Constable) or the Chief Constable's financial statements. There have been no material changes to the financial statements identified to date, subject to the outstanding matters set out on page 5.

We have concluded that the other information to be published with each set of financial statements is consistent with our knowledge of your organisations and the financial statements we have audited.

Our anticipated audit report opinions will be unmodified for both sets of financial statements.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether in our opinion, both entities have put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not completed all of our VFM work and are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay will be sent to the Chief Constable and PCC as Those Charged with Governance. We expect to issue our Auditor's Annual Report by 31 December 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the PCC and Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources. We have not identified any risks of significant weakness at the time of writing this report, however we have identified the following areas of focus:

- 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.

Our work on this risk is underway and an update is set out in the value for money arrangements section of this report.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audits.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audits upon the completion of:

- our work on the PCC and Chief Constable's VFM arrangements, which will be reported in our Annual Auditor's report in December 2021, and
- our work on the group's Whole of Government Accounts (WGA) return. This work is not yet completed and the timelines for this work have not yet been confirmed. We anticipate completing this work in early 2022.

Significant Matters

To support the audit of the group's financial statements for year ended 31 March 2021, Grant Thornton's IT Audit team has completed a design and implementation review of IT General Controls (ITGC) for applications identified as relevant to the financial audit. The findings from this work inform our risk assessment and planning procedures, and determine whether, and how much, reliance can be placed on the operation of the group's systems for the purposes of our substantive testing.

This work has identified a number of deficiencies and significant deficiencies which have led to extended testing being undertaken as part of our substantive work. The detail of these findings have been discussed with management, and were included in a separate report to the Joint Audit Committee.

We did not encounter any significant difficulties or identify any other significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

This Joint Audit Findings Report presents the observations arising from the audits that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and will be discussed with the Joint Audit Committee.

As auditor we are responsible for performing the audits, in accordance with International Standards on Auditing (UK) and the Code, which are directed towards forming and expressing an opinion on each set of financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the PCC's and Chief Constable's business and is risk based, and in particular included:

- An evaluation of the PCC's and Chief Constable's internal controls environment, including IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Conclusion

We have substantially completed our audits of your financial statements and, subject to outstanding queries being resolved, we anticipate issuing unqualified audit opinions on the financial statements of each of the PCC and the Chief Constable. These outstanding items include:

- receipt of signed management representation letters; and
- receipt and review of the final, signed sets of financial statements.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

2. Financial Statements



Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan in March 2021.

We have determined financial statement materiality for each of the group, the PCC and the Chief Constable for the financial year. For our audit testing purposes we apply the lowest of these materialities, being that of the PCC. Our materiality level equates to 1.5% of the PCC's prior year gross expenditure.

We detail our determination of materiality in the table to the right.

	Amount	Qualitative factors considered
Materiality for the financial statements	£10,275k	This benchmark is determined as a percentage of the entity's Gross Revenue Expenditure in year and considers the business environment and external factors.
Performance materiality	£7,706k	Performance Materiality is based on a percentage of the overall materiality and considers the control environment and the accuracy of accounts and working papers provided.
Trivial matters	£514k	Triviality is set at 5% of Headline Materiality.
Materiality for disclosures relating to senior officers' remuneration	£100k	Due to the sensitive nature of these disclosures, a separate, lower materiality threshold is set.



2. Financial Statements - Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Relates to	Commentary
<p>Management override of controls (ISA 240)</p> <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>Chief Constable, PCC and Group</p>	<p>We have:</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals; analysed the journals listing and determined the criteria for selecting high risk unusual journals; identified and tested unusual journals recorded during the year and the accounts production stage for appropriateness and corroboration; gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence; and evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>We have not identified any instances of management override of controls during our audit procedures.</p>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Relates to	Commentary
<p>Valuation of land and buildings</p> <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 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's) 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>PCC and Group</p>	<p>We have:</p> <ul style="list-style-type: none"> • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met; • challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding; • engaged 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; • tested revaluations made during the year to see if they had been input correctly into the PCC's asset register; and • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different from current value at year end. <p>We have not identified any issues or errors through our work on the valuation of the PCC's land and buildings.</p>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Relates to	Commentary
<p>Valuation of the pension fund net liability</p> <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. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.</p> <p>The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.</p> <p>The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability.</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>Chief Constable and Group</p>	<p>We have:</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 evaluated the design of the associated controls; evaluated the instructions issued by management to their management experts (the actuaries for the Local Government Pension Scheme and the Police Pension Scheme) for this estimate and the scope of the actuaries' work; assessed the competence, capabilities and objectivity of the actuaries who carried out the groups pension fund valuations; assessed the accuracy and completeness of the information provided by the group to the actuaries to estimate the liabilities; tested 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; 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; and requested assurances from the auditor of the West Midlands Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the Fund and the fund assets valuation in the Fund's financial statements. <p>From review of the report of the consulting actuary (as auditor's expert), we have noted that the CPI assumption used by GAD for the estimation of the Police Pension Scheme actuarial liability (2.4%) is outside of the expected range (minimum 2.5%). Following consultation with our in-house actuarial team, we are satisfied that this difference does not result in a material issue for the financial statements.</p> <p>We note that the auditor of the WMPF identified an understatement in the valuation of the Fund's assets in the course of their audit procedures. The auditor reported a quantifiable understatement of level 3 investments of £76m, which was then extrapolated to a total of £90m. The PCC's share of this total estimated £90m error is trivial, and the Chief Constable's share is approximately £3,906k. Management have not adjusted the financial statements for this difference, which has been included as an unadjusted misstatement in Appendix B.</p> <p>We have not identified any other issues in respect of the valuation of the pension fund net liability.</p>

2. Financial Statements – key judgements and estimates

Significant judgement or estimate	Relates to	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations £138.2m	PCC (and group)	<p>Other land and buildings comprises approximately £40m of specialised assets such as custody blocks which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£98m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end.</p> <p>The PCC has engaged Savills to complete a formal valuation of the four largest properties, and an impairment review of the remainder of the properties in the portfolio as at 31 March 2021.</p> <p>Within this impairment review, the PCC's valuer has disclosed a material uncertainty in the valuation of the PCC's land and buildings at 31 March 2021 as a result of Covid-19. The PCC has included disclosures on this issue in Note 4, including a statement in the audited financial statements that the potential impact would not be material. We have considered management's rationale for this statement, and are satisfied that it is appropriate based on available market data at 31 March 2021.</p> <p>Management has considered the year end value of non-valued properties to determine whether the value of the properties has materially changed. Management's assessment of assets not revalued has identified no material change to the properties values</p>	<p>We reviewed your assessment of the estimate considering:</p> <ul style="list-style-type: none"> the revised ISA540 requirements; the competence, capability and objectivity of management's expert; the completeness and accuracy of the underlying information used to determine the estimate; the appropriateness of your alternative site assumptions which remain consistent with previous years; the reasonableness of increase/decrease in estimates on individual assets; the consistency of estimate against the Gerald eve report on property market trends, and reasonableness of the decrease in the estimate; and the adequacy of disclosure of estimate in the financial statements. <p>Our work on the revaluation of land and buildings for 2020/21 has not identified any issues we are required to bring to your attention. We are satisfied that revaluations performed were completed appropriately. Our testing of the appropriateness of the accounting for these revaluations is ongoing. There have been no changes in assumptions from the previous years and these are outlined in your accounting policies.</p> <p>We note that the last full valuation of all but these largest items of land and buildings was undertaken by an independent valuer in December 2018, with management's assessment of the risk of material movements since that date being based on an impairment review at March 2021. We have not identified any issues with management's assertion that these assets are not materially misstated, but these valuations are more than two years old. Our own high level review of these assets based on widely available indices indicates that their net book values may be approximately £3.7m lower than their value had they been formally valued.</p>	We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements – key judgements and estimates

Significant judgement or estimate	Relates to	Summary of management's approach	Audit Comments	Assessment																								
Net pension liability LGPS £551.3m	Both	<p>The PCC and Chief Constable's net pension liability in the Local Government Pension Scheme comprises the elements of the assets and liabilities of the West Midlands Pension Fund that are attributable to each of the PCC and Chief Constable</p> <p>The net liability at 31 March 2021 is £5.5m (PY £2.9m) for the PCC and £545.8m (PY £304.9m).</p> <p>The PCC and Chief Constable use Barnett Waddingham to provide actuarial valuations of the PCC's and Chief Constable's assets and liabilities derived from this scheme.</p> <p>A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns.</p> <p>Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p>	<ul style="list-style-type: none"> We have no concerns over the competence, capabilities and objectivity of the actuary used by the Pension Fund. We have used the work of PwC, as auditors expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the West Midlands Pension Fund valuation: <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.00% [CC] / 2.05% [PCC]</td> <td>1.95% - 2.05%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.80% [CC] / 2.85% [PCC]</td> <td>2.80% - 2.85%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>3.80% [CC] / 3.85% [PCC]</td> <td>3.80% - 3.85%</td> <td>●</td> </tr> <tr> <td>Life expectancy Males currently aged 45 / 65</td> <td>45: 23.4 65: 21.6</td> <td>21.9 – 24.4 20.5 – 23.1</td> <td>●</td> </tr> <tr> <td>Life expectancy Females currently aged 45 / 65</td> <td>45: 25.8 65: 23.9</td> <td>24.8 – 26.4 23.3 – 25.0</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above, and no issues were noted with the completeness and accuracy of the underlying information used to determine the estimate. We have confirmed that the group's share of the pension scheme assets is in line with expectations. <p>We note that the auditor of the WMPF identified an understatement in the valuation of the Fund's assets in the course of their audit procedures. The auditor reported a quantifiable understatement of level 3 investments of £76m, which was then extrapolated to a total of £90m. The PCC's share of this total estimated £90m error is trivial, and the Chief Constable's share is approximately £3,906k. Management have not adjusted the financial statements for this difference, which has been included as an unadjusted misstatement in Appendix B.</p>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.00% [CC] / 2.05% [PCC]	1.95% - 2.05%	●	Pension increase rate	2.80% [CC] / 2.85% [PCC]	2.80% - 2.85%	●	Salary growth	3.80% [CC] / 3.85% [PCC]	3.80% - 3.85%	●	Life expectancy Males currently aged 45 / 65	45: 23.4 65: 21.6	21.9 – 24.4 20.5 – 23.1	●	Life expectancy Females currently aged 45 / 65	45: 25.8 65: 23.9	24.8 – 26.4 23.3 – 25.0	●	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>
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2. Financial Statements – key judgements and estimates

Significant judgement or estimate	Relates to	Summary of management's approach	Audit Comments	Assessment																								
Net pension liability Police Pension Scheme £8,025.0m	Chief Constable (and group)	<p>The Chief Constable's pension liability in the Police Pension Scheme at 31 March 2021 is £8,025.0m (PY £7,518.2m) comprises the Police Pension Scheme 2015, the 2006 New police Pension Scheme and the Police Pension Scheme, all of which are unfunded defined benefit pension schemes.</p> <p>The PCC and Chief Constable use the Government Actuaries Department (GAD) to provide actuarial valuations of the Chief Constable's liabilities derived from this scheme.</p> <p>Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p>	<ul style="list-style-type: none"> We have no concerns over the competence, capabilities and objectivity of the actuary used by the Chief Constable. We have used the work of PwC, as auditors expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the Police Pension Scheme valuation: <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.00%</td> <td>2.00%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.40%</td> <td>>2.50%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>4.15%</td> <td>4.15%</td> <td>●</td> </tr> <tr> <td>Life expectancy Males currently aged 45 / 65</td> <td>45: 23.7 65: 22.0</td> <td>23.1 – 23.7 21.4 – 22.0</td> <td>●</td> </tr> <tr> <td>Life expectancy Females currently aged 45 / 65</td> <td>45: 25.3 65: 23.7</td> <td>23.1 – 25.3 21.4 – 23.7</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above, and no issues were noted with the completeness and accuracy of the underlying information used to determine the estimate. <p>From review of the report of the consulting actuary (as auditor's expert), we have noted that the CPI assumption used by GAD for the estimation of the Police Pension Scheme actuarial liability (2.4%) is outside of the expected range (minimum 2.5%). Following consultation with our in-house actuarial team, we are satisfied that this difference does not result in a material issue for the financial statements.</p>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.00%	2.00%	●	Pension increase rate	2.40%	>2.50%	●	Salary growth	4.15%	4.15%	●	Life expectancy Males currently aged 45 / 65	45: 23.7 65: 22.0	23.1 – 23.7 21.4 – 22.0	●	Life expectancy Females currently aged 45 / 65	45: 25.3 65: 23.7	23.1 – 25.3 21.4 – 23.7	●	<p>We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic</p>
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2. Financial Statements – other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	Letters of representation has been requested from both the PCC and the Chief Constable, including specific representations in respect of the group, which are appended to this report.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the group's bank, investment and borrowing counterparties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the PCC's and Chief Constable's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements – other communication requirements



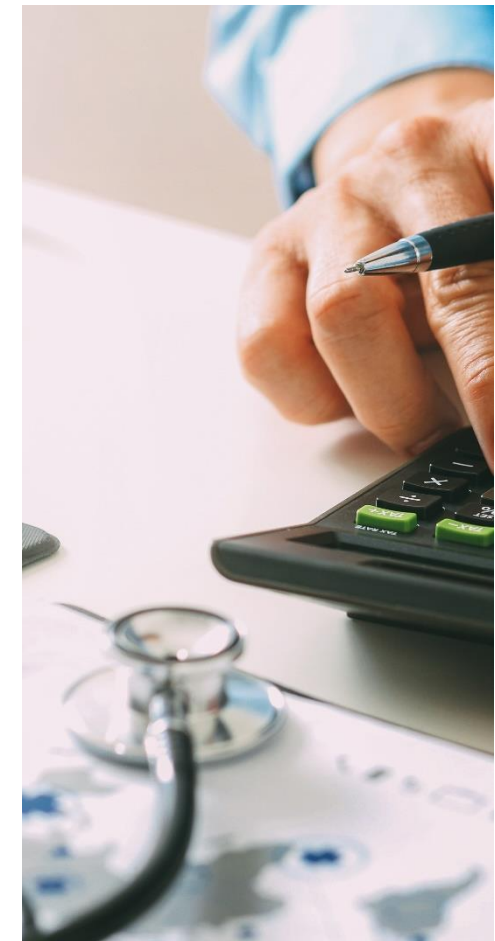
Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the PCC's and Chief Constable's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the PCC and Chief Constable meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the PCC and Chief Constable and the environment in which they operate the PCC's and Chief Constable's financial reporting framework the PCC's and Chief Constable's system of internal control for identifying events or conditions relevant to going concern management's going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified for either the PCC or the Chief Constable management's use of the going concern basis of accounting in the preparation of both sets of financial statements is appropriate.

2. Financial Statements – other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with each set of audited financial statements including the Annual Governance Statements and Narrative Reports, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified at the time of writing this report, but work is ongoing.</p> <p>We plan to issue an unmodified opinion in this respect.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statements do not comply with disclosure requirements set out in CIPFA/SOLACE guidance or are misleading or inconsistent with the information of which we are aware from our audits, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <p>We have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA audit instructions.</p> <p>As the group exceeds the specified reporting threshold we examine and report on the consistency of the WGA consolidation pack with the group's audited financial statements.</p> <p>This work is not yet completed and the timelines for this work have not yet been confirmed. We anticipate completing this work in early 2022.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2020/21 audits of the PCC and Chief Constable in the audit reports, due to the following work being incomplete:</p> <ul style="list-style-type: none"> • work on the group's arrangements to secure value for money; and • required procedures on the PCC's WGA return.



3. 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.
- Auditors undertaking sufficient analysis on the PCC's and Chief Constable's VFM arrangements to arrive at 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 the 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 the three specified reporting criteria.



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

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are 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

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay will be sent to the Chief Constable and PCC as Those Charged with Governance. We expect to issue our Auditor's Annual Report by 31 December 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements

As part of our work, we considered whether there were any risks of significant weakness in the PCC and Chief Constable's arrangements for securing economy, efficiency and effectiveness in their use of resources. We have not identified any risks at the time of writing this report.

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the PCC and Chief Constable. No non-audit services were identified which were charged from the beginning of the financial year to September 2021.

Appendices

A. Follow up of previous recommendations

We identified the following issues in the audits of the PCC and Chief Constable's 2019/20 financial statements, which resulted in recommendations being reported in our 2019/20 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>The last full valuation of land and buildings was undertaken by an independent valuer in December 2018. To inform management as to whether there were material movements in these valuations as at March 2020, an impairment review was commissioned. By March 2021, the valuation information would be over two years old and due to the dynamic and potentially volatile market conditions, our view was that this may result in Management requiring more comprehensive external advice in assessing whether material movements were present. This was particularly relevant for Lloyd House which had not been formally valued since 2017/18.</p> <p>We therefore recommended that consideration be given to whether an accounting policy which sets out a rolling valuation approach is more appropriate within the current financial environment.</p>	<p>For the purposes of the 2020/21 financial statements, a full formal valuation has been performed on the PCC's four largest assets (including Lloyd House), with the remainder of the asset base being subject to an impairment review.</p> <p>Our own high level indexation of these non-valued assets indicates that they could potentially be being carried at a Net Book Value that is approximately £5m lower than their value had they been formally valued.</p> <p>We consider that this recommendation remains.</p>
✓	<p>Testing of operating expenditure in 2019/20 found understatement of expenditure in the previous two financial years as a result of purchase orders being closed prior to the full amount of expenditure per the contract being receipted. This occurred as a result of the purchasing team closing down a purchase order from 2018 which appeared to be complete but contained expenditure relating to the 2019 and 2020 financial years. This was not checked first with the finance team.</p> <p>We recommended that when the purchasing team is closing old purchase orders which look to be fully received, this should be checked with the Finance team if above a trivial value.</p>	<p>No similar issues have been identified through our audit procedures this year.</p>
WIP	<p>The fixed asset register does not allow the extraction of information to support the split of the revaluation reserve and the amount taken to the surplus/(deficit). This results in difficulty in gaining assurance that capital movements are treated in such a way as to comply with the Code, but also difficulty in accounting for any future upward revaluations where there has been a charge to the CIES which should be unwound.</p> <p>We therefore recommended that management assess the historic information for each revalued asset to ensure that future revaluations are taken to the revaluation reserve or charged to the CIES correctly to be code compliant.</p>	<p>The PCC has revalued the four largest assets at 31 March 2021, and our testing of the accounting for these valuations has not identified any issues with the processing of these transactions.</p> <p>We recommend that management continue to complete this historic review for all properties subject to revaluation, to ensure that future valuations are treated appropriately.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

B. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

We have not identified any misstatements for either the PCC or the Chief Constable for the year ending 31 March 2021 at the time of writing this report.

Impact of unadjusted misstatements

The Chief Constable and PCC are required to approve management's proposed treatment of all misstatements identified but not adjusted in their respective financial statements.

The table below provides details of misstatements identified but not adjusted within the Chief Constable's financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Reason for not adjusting
Error noted by the Pension Fund audit team			
We note that the auditor of the WMPF identified an understatement in the valuation of the Fund's assets in the course of their audit procedures. The auditor reported a quantifiable understatement of level 3 investments of £76m, which was then extrapolated to a total of £90m. The Chief Constable's share of the resulting adjustment would be approximately:			This is an extrapolation of an error at the pension fund, and is immaterial to the accounts of the Chief Constable.
Dr Net pension assets		3,906	
Cr Return on assets (within Other Comprehensive Income)	(3,906)		
This issue arose as a result of a lag in the valuation process for the Fund's hard to value investments. This is a function of the Fund's reporting process and is not considered to be indicative of a control weakness at the PCC or Chief Constable. This is also not an unusual finding in pension fund audits, with the size of the variance this year being attributable to ongoing market volatility.			
Overall impact	(£3,906k)	£3,906k	

B. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of unadjusted misstatements

The table below provides details of misstatements identified but not adjusted within the PCC's financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Reason for not adjusting
Creditors			
Seized cash was reported on the balance sheet at £3.038 million. Management should consider whether it is fair for this balance to be recognised as a creditor in its entirety, rather than as a provision or a contingent liability, with the following impact:			Immaterial to the financial statements
Dr Creditors		3,038	
Cr Provisions		(3,038)	
Provisions			
It was announced in June 2021 that West Midlands Police along with South Yorkshire Police agreed the settlement of a civil claim relating to the Hillsborough disaster in 1989. The exact amount of compensation is yet to be agreed. This is included in the financial statements as a contingent liability.			The element of the provision that can be estimated is immaterial to the financial statements
Management have demonstrated that, due to the complexity of the settlement process, the degree of inherent uncertainty is such that a reasonable estimate of the future settlements cannot be calculated for the majority of claims and so a provision cannot be made for these in the financial statements. The elements that can be estimated total £1.2m, based on claims settled after the 31 March 2021, however no adjustment has been made for this in the financial statements.			
Had the adjustment been made, the impact would be as follows:			
Dr Expenditure	1,200		
Cr Provisions		(1,200)	
Overall impact – PCC	£1,200k	(£1,200k)	
Misstatements not adjusted in the Chief Constable's financial Statements	(£3,906k)	£3,906k	
Overall impact – Group	(£2,706k)	£2,706k	

B. Audit Adjustments

Impact of prior year unadjusted misstatements

There were no adjustments identified during the prior year audit which had not been made within the Chief Constable's final set of 2019/20 financial statements.

The table below provides details of adjustments identified during the prior year audit which had not been made within the PCC's final set of 2019/20 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
Understatement of Operating Expenditure				Immaterial to the financial statements
One error was identified in the testing of operating expenditure during 2019/20. This was caused by the premature closing down of an old purchase order which had not yet been fully invoiced, resulting in expenditure not being fully recognised. As a result, operating expenditure was understated, with the following potential impact:				
Dr Operating Expenditure	545		545	
Cr Creditors		(545)		
We performed further testing on a subpopulation of similar items and found no additional issues.				
Creditors				Immaterial to the financial statements
Seized cash was reported on the balance sheet at £3.098 million. Management should consider whether it is fair for this balance to be recognised as a creditor in its entirety, rather than as a provision or a contingent liability, with the following impact:				
Dr Creditors		3,098		
Cr Provisions		(3,098)		
Overall impact	£545k	(£545k)	£545k	

B. Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure	Relates to	Auditor recommendations	Adjusted?
Group Movement in Reserves Statement	Group	The presentation of the Group Movement in Reserves Statement is technically not compliant with the requirements of the Code. We are satisfied that the information presented within the statement is fairly presented, and that this non-compliance would have no impact on how the reader of the financial statements would interpret and understand the PCC's and Group's performance and financial position.	X
Estimation Uncertainties (PCC Note 4)	PCC	The narrative explanation surrounding the uncertainties in the valuations of land and buildings has been updated for clarity. We note that this disclosure does not fully meet the requirements of the Code.	✓
Expenditure and Funding Analysis (CC Notes 6&7)	Chief Constable	Note 7 has been re-presented to be consistent with Note 6	✓
Employee Remuneration (CC Note 9, PCC Note 10)	Chief Constable (and Group)	Reperformance of the calculation of the banded remuneration note showing the remuneration of employees whose remuneration is in excess of £50k per year has led to minor amendments.	✓
Employee Remuneration (CC Note 10, PCC Note 11)	Chief Constable (and Group)	Reperformance of the calculation of the remuneration of senior officers has led to minor amendments.	✓
Grant Income (CC Note 13, PCC Note 14)	Chief Constable (and Group)	Consistency checks performed as part of our testing of the group's grant income identified that the Chief Constable's grant income per the disclosure note was £1,161k lower than that recognised in the CIES. The disclosure note has been updated to correct this.	✓
Various	All	A number of other minor changes have been made to disclosure notes and accounting policies throughout the financial statements to improve accuracy, clarity and user understanding.	✓

C. Fees

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

Audit fees	Proposed fee	Final fee
PCC Audit	£57,785	£TBC
Chief Constable Audit	£29,840	£TBC
Total audit fees (excluding VAT)	£87,625	£TBC

The fees reconcile to the financial statements as follows:

	PCC	Chief Constable	
• fees per financial statements	£32,623	£17,325	(PSAA scale fee)
• proposed additional fee 2020/21	£25,162	£12,515	(subject to PSAA approval)
• total fees per above	£57,785	£29,840	



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