

Joint External Audit Plan

Police and Crime Commissioner for West Midlands
Chief Constable for West Midlands

Year ending 31 March 2022

June 2022



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 Police and Crime Commissioner 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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Key matters

Factors

Sector developments

Police Funding Settlement 2022/23

The Home Office has published the provisional police funding settlement for 2022/23. The Government is proposing a total police funding settlement of up to £16.9 billion for policing in 2022/23. Overall funding available to Police and Crime Commissioners (PCCs) will increase by up to £796m next year - an increase of up to 5.8% when compared to the 2021/22 funding settlement - if PCCs make full use of their flexibility to increase precept. The funding package includes:

- An additional £550 million Government funding to PCCs, including funding to drive the recruitment of the final 8,000 extra officers to reach the 20,000 recruitment target by the end of March 2023.
- Up to an additional £246 million from council tax precept, subject to decisions by PCCs.
- £1.4 billion for national priorities, including police technology.
- Counter-terrorism police funding increasing to over £1 billion for the first time.

Police Officer Uplift

The Government is committed to delivering an additional 20,000 officers nationally by March 2023. The West Midlands region was provided with a total uplift allocation of 1218 officers over a 3 year period. As at December 2021, 844 additional officers had been recruited through the police officer uplift programme.

Developments at West Midlands Police

A new Police and Crime Commissioner was appointed in May 2021 and a new three year Police and Crime Plan, based on the manifesto, was approved in November 2021.

The Chief Constable is retiring in the Autumn of 2022 and there is an ongoing recruitment process. After many years of relative stability, the organisation is facing a relatively high turnover of senior officers and recruitment of the right people into these roles is vital over the coming months.

Summer 2022 sees the Commonwealth Games based in Birmingham. Whilst planning around this has been ongoing for many months which includes a security and safety strategy, this is clearly a hugely significant event for the region.

Our response

- We will consider your arrangements in place to secure financial resilience and sustainability for both the PCC and CC as part of our value for money work.

As part of our value for money work we will consider:

- the arrangements that are in place to support the delivery of the new police and Crime Plan.
- the arrangements in place for workforce planning and the governance arrangements around recruitment into key roles
- Gain an understanding of the overarching arrangements for the games, including the financial impact on the organisation

Key matters

Factors

Auditing developments

We have continued to hold regular meeting with the finance team. During these meetings we discuss a range of key issues regarding general developments, current and projected financial performance and emerging financial reporting issues.

Department for Levelling Up, Housing and Communities (DLUHC) asked CIPFA to consider changes to the Code to help alleviate delays to publication of audited financial statements. In response CIPFA Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued an exceptional consultation which explored two possible changes that may be made as an update to the 2021/22 code and to the 2022/23 code. CIPFA LASAAC preliminary decision was published on 17 March 2022 which highlighted the following:

- not to progress any of the proposals around pausing formal valuation of assets; and
- to pursue the proposal on deferring IFRS 16, but note that this is the Board's preliminary decision, subject to the other steps in the governance process. These include consideration and review by the Financial Reporting Advisory Board (FRAB), and further formal approval processes at CIPFA via Public Finance and Management Board (PFMB) and at LASAAC.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- We will continue to provide you with sector updates via our Joint Audit Committee updates.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audits of both the Police and Crime Commissioner for West Midlands Police and Crime Commissioner ('the PCC') and the Chief Constable for West Midlands ('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). We draw your attention to both of these documents on PSAA Website.

Scope of our audit

The scope of our audit 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, Chief Constable 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 we consider whether there are sufficient arrangements in place at each body for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the PCC and the Chief Constable of your responsibilities. It is the responsibility of the PCC and the Chief Constable 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.

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 building maybe materially misstated. (PCC and Group)
- The Valuation of net pension liability maybe 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 audits to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £11.7 m (PY £10.27m) for the group, the PCC and the Chief Constable, which equates to 1.5% of the Chief Constable'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 £0.585m (PY £0.514m).

Value for Money arrangements

We have yet to undertake our value for money risk assessment. We will provide details of the risks in our progress report and plan addendum.

Audit logistics

Our interim visit will take place in month of March and April 2022 and our final visit will take place from July to November 2022. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our fee for the audit for 2021/22 is still to be confirmed as the PSAA approval process for audit fees has only just been finalised. The fee for 2021/22 will be subject to the bodies delivering a good set of financial statements and working papers.

Our proposed fee for the audit will be £62,626 (PY: £57,785) for the PCC and £35,119 (PY: £29,840) for the Chief Constable, subject to the bodies delivering a good set of financial statements and working papers.

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
Police and Crime Commissioner for West Midlands and group	Yes		<ul style="list-style-type: none"> Management override of controls Valuation of Land and Building 	Full scope audit performed by Grant Thornton UK LLP
Chief Constable for West Midlands and group	Yes		<ul style="list-style-type: none"> Management override of 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 form of fraud is 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>	

Significant risks identified (Continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls ISA (UK) 240	Group, PCC and Chief Constable	Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management over-ride of controls is present in all entities. The PCC and Chief Constable face external scrutiny of their spending and this could potentially place management under undue pressure in terms of how they report performance. 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>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.
Valuation of land and buildings	Group, and PCC	The PCC revalues its land and buildings on a five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved [£138.2 million as at 31 March 2021] and the sensitivity of this estimate to changes in key assumptions. 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. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk of material misstatement.	<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.

Significant risks identified (Continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Group, PCC and CC	<p>Chief The group's pension fund net liability, as Constable reflected in its balance sheet as the net defined benefit liability, represents a significant Group 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 (£8576.2m in group balance sheet of 31 March 2021) and sensitivity of the estimate to changes in the 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 risk 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.

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 the 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?



Accounting estimates and related disclosures

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 audits for the year ended 31 March 2022.

Based on our knowledge of the PCC and the 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 the Chief Constable's Information systems

In respect of the PCC and the 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 bodies use 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 bodies (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 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 an opinion and our knowledge of the PCC and the Chief Constable.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement[s] 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 PCC or the Chief Constable 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.

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 materiality based on a proportion of the gross expenditure of the group, the PCC and the Chief Constable for the financial year. In the prior year we used the same benchmark. For our audit testing purposes we apply the lowest of these materiality's, which is £11.7m (PY 10.275m), which equates to 1.5% of the PCC's prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £100,000 for senior officer remuneration.

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

Matters we will report to the PCC and the Chief Constable

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 the 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 £0.585m (PY £0.514m).

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

Prior year gross operating costs

£899.043m group

(PY: £869.7m)

£782.109m PCC

(PY: £685.0M)

£878.324m Chief Constable

(PY: £851.9M)



Prior Year Gross Operating Costs

Materiality

£11.7m financial statements materiality for the purpose of our audit (PY: £10.275m)

£0.585m Misstatements reported to the PCC and Chief Constable (PY: £0.514m)

Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office (NAO) issued its guidance for auditors in April 2020. The Code requires 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 three specified reporting criteria as set out below. We have yet to complete our value for money risk assessment and will provide details of the identified risks within an addendum to the audit plan to be issued in July.



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)

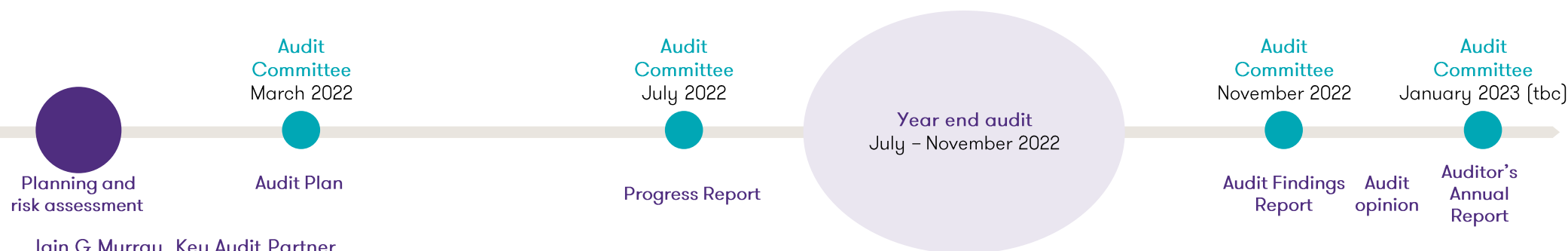


Governance

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



Audit logistics and team



Iain G 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 for you. Iain is responsible for overall quality of our audit work and will sign of the audit opinion.

Zoe Thomas, Audit Manager

Zoe will work with senior members of the finance team, ensuring testing is delivered and any accounting issues that arise are addressed on 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 meeting with the audit partner, undertaking reviews of team work, and make sure that the reports are clear, concise and understandable.

Josh D Williams, Audit Incharge

Josh will work directly with the finance team on our on site visits, and manage day to day work of more junior members of the audit team.

He will complete work on more complex areas of the audits of the PCC and the chief constable, will provide support on the delivery of your 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 by the agreed 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 we have shared 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 financial statements, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audits
- respond promptly and adequately to audit queries.

Audit fees

PSAA awarded a contract of audit for West Midland PCC and West Midland Chief Constable to begin with effect from 2018/19. The fee agreed in the contract was £34,623 for the PCC 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 ISA's which are relevant for the 2020/21 audit and beyond.

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 detailed on page 10 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures

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 work and fees for 2021/22, as set out below, is detailed overleaf.

	Actual Fee 2019/20	Actual Fee 2020/21	Proposed fee 2021/22
PCC Audit	£45,178	£57,785	£62,626
Chief Constable Audit	£23,966	£29,840	£35,119
Total audit fees (excluding VAT)	£69,144	£87,625	£97,745

Assumptions

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

- prepare a good quality set of financial statements, supported by comprehensive and well presented working papers which are ready at the start of the audits
- 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.

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 the Chief Constable.

Other services

No other services 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 audits.

Appendix 1: Progress against prior year audit recommendations- Police and Crime Commissioner and Chief Constable

In our 2020/21 Audit findings report we did not make any new recommendations but concluded that two of the recommendations made in the prior year had yet to be fully addressed. These are set out below

Issue and risk previously communicated	Update on actions taken to address the issue
<p>In our 2019/20 AFR we recommended that consideration be given to an accounting policy which sets out a rolling valuation approach in view of the current economic environment. In response to our recommendation management stated they considered that the review of the four largest assets and an impairment review on the remainder was sufficient. Our estimate is that the approach adopted by management could result in a £5m reduction in value should the assets be formally valued and thus we conclude that it would be better for management to adopt a rolling programme.</p>	<p>We still consider the approach valid. In addition a full comprehensive valuation was carried out in 2020/21 of our largest assets. Our approach involves revaluing every 5 years, as the largest assets and those that make up the majority of Land and Buildings valuation are reviewed more frequently. The impairment review is carried out by an external RICS qualified professional to take account of market conditions etc. In addition the cost of having the entire property estate valued every year is significant and the value gained would not merit a annual valuation. The current methodology is deemed appropriate to give the readers of the accounts a true and fair view. We are also not a privately listed company and do not borrow based on the value of our balance sheet.</p>
<p>The fixed asset register is not set up so that it is clear the historic accounting treatment of valuation movements and thus that future valuations are correctly treated (i.e through the revaluation reserve of CIES). Whilst we are satisfied that the four largest assets are correctly accounted for, we recommended that management continues to complete a historic review of all properties to ensure that future valuations are treated appropriately.</p>	<p>This is being reviewed.</p>

Appendix 2

Significant improvements from the Financial Reporting Council's (FRC) quality inspection

On 29 October, the FRC published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year. A link to the report is here: [FRC AQR Major Local Audits October 2021](#)

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

Our file review results

The FRC reviewed nine of our audits this year. It graded six files (67%) as 'Good' and requiring no more than limited improvements. No files were graded as requiring significant improvement, representing an impressive year-on-year improvement. The FRC described the improvement in our audit quality as an 'encouraging response by the firm to the quality findings reported in the prior year.' Our Value for Money work continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement. We welcome the FRC findings and conclusions which demonstrate the impressive improvement we have made in audit quality over the past year.

The FRC also identified a number of good practices including effective challenge of management's valuer, use of an auditor's expert to assist with the audit of a highly specialised property valuation, and the extent and timing of involvement by the audit partner on the VFM conclusion.

Our results over the past three years are shown in the table below:

Grade	Number 2018/19	Number 2019/20	Number 2020/21
Good with limited improvements (Grade 1 or 2)	1	1	6
Improvements required (Grade 3)	2	5	3
Significant improvements required (Grade 4)	1	0	0
Total	4	6	9

Our continued commitment to Audit quality and continuous improvement

Our work over the past year has been undertaken during the backdrop of COVID, when the public sector has faced the huge challenge of providing essential services and helping safeguard the public during the pandemic. Our NHS bodies in particular have been at the forefront of the public health crisis. As auditors we have had to show compassion to NHS staff deeply affected by the crisis, whilst staying focused on the principles of good governance and financial management, things which are more important than ever. We are very proud of the way we have worked effectively with audited bodies, demonstrating empathy in our work whilst still upholding the highest audit quality.

Significant improvements from the Financial Reporting Council's (FRC) quality inspection (cont.)

Over the coming year we will make further investments in audit quality including strengthening our quality and technical support functions, and increasing the level of training, support and guidance for our audit teams. We will address the specific improvement recommendations raised by the FRC, including:

- Enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge
- Formalising our arrangements for the consideration of complex technical issues by Partner Panels.

As part of our enhanced Value for Money programme, we will focus on identifying the scope for better use of public money, as well as highlighting weaknesses in governance or financial stewardship where we see them.

Conclusion

Local audit plays a critical role in the way public sector audits an society interact, and it depends on the trust and confidence of all those who rely on it. As a firm we're proud to be doing our part to promote good governance, effective stewardship and appropriate use of public funds.



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