# Joint Audit Findings Report

## West Midlands Police

Year ended 31 March 2023

# 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 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.

This Audit Findings presents the observations arising from the audit 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. Its contents will be discussed with management, the PCC and Chief Constable as those charged with governance, and the Audit Committee.

Andrew Smith
**For and on behalf of Grant Thornton UK LLP**
20 September 2023

# 1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of West Midlands Police and Crime Commissioner ('the PCC') and West Midlands Chief Constable and the preparation of the PCC's and Chief Constable's financial statements for the year ended 31 March 2023 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:<br>• give a true and fair view of the financial positions of the PCC and Chief Constable's income and expenditure for the year; and<br>• 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.<br>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 | The majority of our audit work was completed during July to September. The draft set of accounts received on 31 May were amended to reflect updated pensions figures. There has been a delay since September in finalising our work as there were a number of issues around the pension find disclosures that have taken some time to resolve.<br>We have identified several adjustments to the financial statements of both the Chief Constable, and PCC. The key adjustments were:<br>A non- audit related adjustment reflecting the issue of a revised IAS19 report (LGPS) between issue of draft accounts and July version.<br>The main Audit adjustments relate to other pension adjustments:<br>• Police scheme: following audit challenge the inflation assumptions were amended by GAD (the Actuary) resulting in adjusted obligations and net liabilities in this scheme<br>• LGPS scheme: following audit challenge management supported by the actuary considered the requirements of IFRIC 14, with the Actuary determining an asset ceiling which was reflected in the accounts, resulting in the surplus on the scheme in the CC accounts being adjusted to a deficit position.<br>One other adjustment was in relation to the accounting the impairment of intangibles. Management had incorrectly reflected impairments as part of Other land and buildings, assets under construction. In the process of adjusting, it was noted that errors had occurred in the prior year and a prior period adjustment has consequently been made.<br>The pensions adjustments have impacted on the total comprehensive income and expenditure reported, due to the adjustments in the remeasurement of the defined benefit liability line., resulting in a reduction of £136m<br>A further adjustment has been made to the MIRS in relation to the disclosure of the Pensions top up grant, this also has resulted in a prior period adjustment. Both PPA's are reflected in a new PPA note in the Group accounts at note 48 and the CC accounts, note 21.<br>The final matter in relation to pension which was delaying our opinion has now been resolved. The issue was that the Actuary was provided with 8 months contributions data to inform his estimate, when 9 months is usually provided. As a consequence, there is some difference between the actual contributions made and benefits paid which is out of line with expectations. Management has now discussed this with the actuary to determine the impact on the various assumptions within the accounts. Management has confirmed that overall, there is not a material impact on the financial statements. This matter is detailed in Page 11.<br>Further details of audit adjustments, including disclosure changes are detailed in Appendix C.<br>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 or material changes to the financial statements, subject to the following outstanding matters:<br>• Receipt of management representation letters; and<br>• Review of the final sets of financial statements<br>We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisations and the financial statements we have audited.<br>Our anticipated financial statements audit report opinions will be unmodified. Our work on the PCC's and Chief Constable's value for money (VFM) arrangements is now complete. The outcome of our VFM work will be reported in our commentary on the PCC's and Chief Constable's arrangements in our Auditor's Annual Report (AAR). We are satisfied this work does not have a material effect on our opinions on the financial statements for the year ended 31 March 2023. |

# 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.<br>Auditors are required to report their commentary on the arrangements under the following specified criteria:<br>• Improving economy, efficiency and effectiveness;<br>• Financial sustainability; and<br>• Governance | We have now concluded on our VFM work our Auditor's Annual Report is presented to the March JAC along with this report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. 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.<br>At planning we did not identify any risk of significant weakness. Our detailed work started in early October, and we provided an update on our assessment of significant risks to the December JCC. We have considered the impact of the recent Peel report on the VFM Code criteria and concluding that this presented a further which we would need to consider in our conclusions.<br>We have concluded that there is one signficant weakness and this will be reflected in our audit report. |
| **Statutory duties** | |
| The Local Audit and Accountability Act 2014 ('the Act') also requires us to:<br>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and<br>• to certify the closure of the audit. | We have not exercised any of our additional statutory powers or duties.<br>We expect to certify the completion of the audit as we have completed both our opinion and VFM work. |
| **Significant matters** | We have not yet encountered any significant difficulties or identify any significant matters arising during our audit. |

# 1. Headlines

**National context – audit backlog**

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

We would like to thank everyone at the OPCC and Chief Constable for their support in working with us to  not to fall behind and to issue a timely audit opinion.

# 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 will be discussed with management, the PCC and Chief Constable as those charged with governance, and the Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the 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 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 their IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the 'PCC and Chief Constable's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. We based our materiality on the lowest expenditure of the components.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter our audit plan, as presented to the PCC, CC and Committee, although the extent of testing in relation to pensions was greater than planned. This is covered further in the responses to risks sections of the report.

## Conclusion

We have substantially completed our audit of your financial statements and subject to completion of the areas below, we anticipate issuing an unqualified audit opinion on the financial statements of both the PCC and the Chief Constable. These outstanding items include:

- Completion of the WGA return to the NAO
- Receipt of management representation letters; and
- Review of the final 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.

We have revised the performance materiality due to the actual gross expenditure changing significantly from that anticipated at the planning stage resulting in a review of the appropriateness of the materiality figure.

We set out in this table our determination of materiality for the PCC, Chief Constable and group.

| | Group (£'000) | PCC (£'000) | Chief Constable (£'000) | Qualitative factors considered |
|---|---|---|---|---|
| Materiality for the financial statements | 14,000 | 12,500 | 13,700 | Materiality equates to approximately 1.5% of your gross operating costs for the year, adjusted for non-recurrent Commonwealth Games expenditure |
| Performance materiality | 10,200 | 9,300 | 10,200 | 75% of materiality, this reflects that there is no history of deficiencies or large number of misstatements. |
| Trivial matters | 700 | 625 | 685 | 5% of materiality |
| Materiality for staff remuneration. | 100 | 100 | 100 | This reflects the heightened public interest around the salary disclosures within the accounts |

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. We have adjusted for the expenditure associated with the Commonwealth Games as we judged that this would inappropriately increase audit materiality. For our audit testing purposes, we apply the lowest of these materialities, which is £12.5 (PY £10.2), based on 1.5% of expenditure (adjusted for Commonwealth Games). This is a small increase from the materiality set at planning of £11.7m.

# 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 |
| --- | --- | --- |
| Management override of controls | PCC / Chief Constable / Group | We have:<br>• evaluated the design and implementation of management controls over journals<br>• analysed the journals listing and determined the criteria for selecting high risk unusual journals<br>• identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration<br>• gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness<br>Our testing involved using software to focus our testing on the journals we considered to be higher risk.<br>We had noted that journals are not authorised. This impacted on the number of journals we were required to test . Our samples tested included:<br>• Manual journals posted by blank users<br>• High value journals at the year end and out of financial period<br>• Commonwealth games related spend<br>• Users assessed to be at higher risk<br>We have raised a control recommendation No significant concerns have arisen from our work |
| Risk of fraud related to Expenditure recognition (PAF Practice Note 10) | | This risk was rebutted at planning and there are no changes to our assessment reported in the audit plan.<br>No significant matters were raised in our detailed expenditure testing. |

# 2. Financial Statements: Significant risks

| Risks identified in our Audit Plan | Relates to | Commentary |
|---|---|---|
| **Presumed risk of Fraud in revenue recognition – ISA (UK) 240** | PCC / Chief Constable / Group | This risk was rebutted at planning and there are no changes to our assessment reported in the audit plan.<br><br>No significant concerns have been raised from our detailed testing. |
| **Valuation of land and buildings**<br><br>The PCC revalues its land and buildings on a five yearly basis. This valuation represents a significant estimate by management in the financial year. | PCC / Group | In line with our planned audit procedures, we have:<br><br>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work;<br><br>• evaluated the competence, capabilities and objectivity of the valuation expert;<br><br>• 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;<br><br>• challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding;<br><br>• 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;<br><br>• tested revaluations made during the year to see if they had been input correctly into the PCC's asset register; and<br><br>• evaluated the assumptions made by management for those assets<br><br>As a rolling programme is effectively adopted to valuation with approximately 27% of the asset value revalued in year, we also considered the procedures management had undertaken to be satisfied that the assets not valued were not materially different from current value at year end. We then compared this with the indices provided by our own valuer. We were content that there was not a material misstatement as a consequence of the cyclical approach adopted to valuation.<br><br>During our testing we noted that the PPE note did not split valuation movements between what is posted to the CIES and what is posted to the revaluation reserve. This is a Code requirement. Management has now adjusted for this (see adjusted errors)<br><br>We are currently finalising our work but are expecting to be able to conclude that the significant risk around valuation of land and buildings will be mitigated.<br><br>**Further detail is contained later in our report.** |

# 2. Financial Statements: Significant risks

| Risks identified in our Audit Plan | Relates to | Commentary |
| --- | --- | --- |
| **Valuation of pension fund net liability**<br><br>The PCC's and Chief Constable's '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.<br><br>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.<br><br>The actuarial assumptions used are the responsibility of the entities 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.<br><br>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.<br><br>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. | PCC / Chief Constable / Group | In line with the audit plan, we have:<br><br>• updated our understanding of the processes and controls put in place by management to ensure that the group's pension fund net liability is not materially misstated and evaluate the design of the associated controls;<br><br>• evaluated 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;<br><br>• assessed the competence, capabilities and objectivity of the actuaries who carried out the group's pension fund valuations;<br><br>• assessed the accuracy and completeness of the information provided by the group to the actuaries to estimate the liabilities;<br><br>• 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;<br><br>• 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<br><br>• sought 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.<br><br>Several matters arose in the audit in relation to the PF disclosures and resolution of these matters led to the delay in finalisations of our work:<br><br>• The assurances from the WMPF auditors to support the IAS19 LG pension scheme disclosures, included assurances around the triennial valuation. No issues were raised on this. Matters were raised in relation to lagged assets (as reported in the prior year) however these are much smaller this year. Secondly the report flagged that the contributions and benefits paid are not in line with expectations due to 8 months data being provided and 9 months was assumed in the actuary estimate. We are not expecting the impact to be material however we are waiting on confirmation from the actuary on this matter.<br><br>• GAD accepted that the inflation assumptions in their valuation was not reasonable and has issued a revised IAS19 report. This has had a material impact on the liability disclosed in relation to the police schemes and the accounts have been amended accordingly<br><br>• Management has now undertaken an IFRIC14 assessment as there was a net asset in the draft accounts on the CC LGPS which offset a small but material element of the police fund liability. A credit ceiling calculation has been made subsequently by the Actuary and applied, resulting in a further adjustment to the accounts<br><br>• .The draft accounts showed an unexpected discrepancy between the MIRS the pensions reserve and the note reporting the movement on the net defined pension liability. . Management understood this discrepancy which was associated with the treatment of the pensions top up grant. Management has agreed to restate the accounts in a manner that we consider to be more in line with the expected disclosures. An equivalent amendment was made to the prior year financial statements. |

# 2. Financial Statements: Significant risks

| Risks identified in our Audit Plan | Relates to | Commentary (continued) |
|---|---|---|
| **Valuation of pension fund net liability**<br><br>The PCC's and Chief Constable's '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.<br><br>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.<br><br>The actuarial assumptions used are the responsibility of the entities 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.<br><br>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.<br><br>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. | PCC / Chief Constable / Group | The data provided to the actuary on contributions was based on 8 months data rather than 9 months. This has resulted in a larger than expected estimated contributions compared to actual contributions specifically in relation to the local government pension scheme. Management has discussed this matter with both the pension fund administrator and the actuary who has considered whether this had wider implications for the accounting estimate.<br><br>The actuary has confirmed that the impact is as follows:<br><br>• Contributions over the period would be c£4m higher (c13% change)<br>• Closing assets would be £4m higher (c0.05% change)<br>• Obligations would be broadly unchanged.<br>• Very minor impact to net interest costs (c£40k)<br>• Net asset in closing balance sheet at 31 March 2024 would be c£20m (previously c£16m)<br>• Restricted asset position would remain £0.<br><br>The overall impact on the CIES is estimated to be £40k, which we consider to be trivial. In addition, due to the impact of the IFRIC 14 , there would remain a nil asset ceiling, thus there would be no overall impact on the balance sheet. |

# 2. Financial Statements: new issues and risks

This section provides commentary on new issues and risks which were identified during the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

| Issue | Commentary | Auditor view |
|---|---|---|
| **IT Control deficiencies**<br>Provide an overview of results from our assessment of the relevant Information Technology (IT) systems and controls operating over them which was performed as part of obtaining an understanding of the information systems relevant to financial reporting. | Our work on IT included updating our understanding of the IT controls that relate to the systems judged to the most significant to our opinion (in line with the additional requirements under ISA315) and updating our understanding of the general IT control environment.<br>We had some concerns around the access to the system, in particular individuals having admin access to particular systems as well as day to day operational responsibilities on those systems. These concerns were in relation to:<br>• iTrent (payroll)<br>• Altair (pensions)<br>• Oracle Fusion (general ledger)<br>This is referenced in Appendix D as a control weakness. | Key members of staff who have been identified as having excessive account access, or where segregation of duties issues have been noted, have been identified for consideration as part of our journals testing approach. and included in our high -risk sample for testing purposes. No significant concerns have been raised in relation to the journals selected. We do consider that there is a control weakness in relation<br>We have also undertaken extended testing of starters and leavers to support our SAPs based on Altair and iTrent records (i.e. substantive analytic procedures on payroll and pensions)<br>Additional procedures surrounding the completeness and accuracy of the TB and transactional data have been performed. We have observed the download of the trial balance by the systems accountant. In addition, where further transaction listings have been provided in the form of a ledger download, we have observed the running of these reports to gain assurance over their completeness and accuracy. |

# 2. Financial Statements: key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

| Significant judgement or estimate | Relates to | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|---|
| Land and Building valuations – £180,284 (P/Y £173.1m, of which £48m have been valued in year. | PCC / Group | Management has had assets to the value of £48.5m valued in 2022/23 (7 properties). The accounting policy indicates that valuations take place every five years, however management do undertake a programme of valuing a sample of larger assets, or assets where there are known to be substantial changes in year.<br>New valuers (Avison Young) were appointed for the valuation exercise in 2022/23. Avison Young is experienced in the valuation of public sector property. All the properties valued were inspected by the valuer.<br>The assets valued on a DRC basis (specialised assets) on a market comparable basis was £22.8m and those on an existing use basis were £25.7m.<br>There is a material element of the property asset base that was not valued in year. Management has demonstrated that these assets are not materially misstated through application of relevant indices. We agreed with management view that further valuations would not be required.<br>We have discussed with management the following disclosure matters:<br>**Assets under construction:**<br>Note 27 (draft accounts), Property plant and equipment (PPE) reflected £12m of assets under construction brought forward. Of this, £9.9m was impaired (written off to revenue ) in year.<br>This related to an IT project: National Data Analytics Solution (NDAS). Despite the sizeable investment in the project, the project has been paused, and to reflect that there is no current intention to use the data in the functions of the force, the costs incurred to date have been written off via an impairment. We will consider this matter further as part of our value for money work.<br>This is covered further on page 17. | Subject to resolution of the outstanding matters, we consider that the valuation of land and buildings are fairly stated.<br>Management accounting policy is appropriate, and we have seen no evidence that it has not been complied with.<br>Management has appointed suitable experts to support them in making the estimate.<br>The accounting and disclosures are broadly in line with the Code. | We consider management's process is appropriate and key assumptions are neither optimistic or 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

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

| Significant judgement or estimate | Relates to | Summary of management's approach (continued) | Audit Comments | Assessment |
|---|---|---|---|---|
| Land and Building valuations – £180,284 (P/Y £173.1m, of which £48m have been valued in year. | PCC / Group | As this related to a software project, the Assets under construction (AUC) brought forward is incorrectly classified in the notes to the accounts within Note 27 ( PPE) and should be included within the Intangibles (note 31 ) and a prior period adjustment may be required.<br>**Disclosure**<br>We consider that the Note 27 is not fully code compliant as is does not distinguish between valuation changes going through the CIES and that through the revaluation reserve. There is no impact on the bottom line<br>**Steelhouse Lock Up (£0.7m)**<br>This buildings is now being operated as a museum following refurbishment. We discussed the classification of this asset with management and agree with the view that an operational heritage asset is appropriate as it is used for operational purposes in addition to being used as a museum.<br>**Other matters: depreciation**<br>There are a large number of fully depreciated assets within the asset register. We undertook some sampling and concluded that all those sampled are still in use. We have calculated that the potential depreciation charge had the useful lives been extended to 31/3/23 as £2m (with depreciation overcharged in prior years)<br>Management should keep the useful lives used for depreciation under review to ensure that they remain realistic and charges to the CIES are reasonable. Management should also continue to undertake confirmations of assets in use and those not in use should be removed from the asset register (and the accounts).<br>**Reinforced autoclaved aerated concrete (RAAC).**<br>Management has surveyed the property base to determine whether this is a matter and whether impairments will be required. They have judged that no impairments are required. | (Continued) | |

# 2. Financial Statements: key judgements and estimates

| Significant judgement or estimate | Relates to | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|---|
| **LGPS Net pension liability (surplus) – £16m (p/y 431m)**<br><br>IFRIC 14 addresses the extent to which an IAS 19 surplus can be recognised on the balance sheet and whether any additional liabilities are required in respect of onerous funding commitments.<br><br>IFRIC 14 limits the measurement of the defined benefit asset to the 'present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. | PCC / Chief Constable / Group | The PCC and Chief Constable's Local Government Pension Scheme net pension surplus at 31 March 2023 is £16m (PY £431 m deficit) comprising the West Midlands Local Government Pension Scheme obligations.<br><br>The PCC and Chief Constable uses Hymans Robertson to provide actuarial valuations of the PCC's and Chief Constable's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.<br><br>The latest full actuarial valuation was completed in March 2022. Given the significant value of the net pension fund surplus, small changes in assumptions can result in significant valuation movements. | We have undertaken procedures as set out in the audit plan. Which included:<br>• Assessment of management's expert<br>• Assessment of actuary's approach taken, detail work undertaken to confirm reasonableness of approach<br>• Use of PwC as auditors expert to assess actuary and assumptions made by actuary – use table to compare with Actuary assumptions<br>• Completeness and accuracy of the underlying information used to determine the estimate<br>• Impact of any changes to valuation method<br>• Reasonableness of the PCC and Chief Constable's share of LGPS pension assets.<br>• Reasonableness of increase/decrease in estimate<br>• Adequacy of disclosure of estimate in the financial statements<br>Also, due to the surplus position , we are to consider management's compliance with IFRIC14 and management are currently consulting with the actuary on this matter. | |

| LGPS Assumptions Assumption (CC) | Actuary Value | PwC range | Assessment |
|---|---|---|---|
| Discount rate | 4.75% | 4.75% | ● |
| Pension increase rate | 2.95% | Adjusted 2.95% to 3.00% p.a. | ● |
| Salary growth | 3.95% (1% higher than CPI) | 0.5% to 2.5% p.a. above CPI inflation | ● |
| Life expectancy – Males currently aged 45/65 | Current : 20.9 yrs<br>Future : 23.7 yrs | Within acceptable range | ● |
| Life expectancy – Females currently aged 45/65 | Current 23.7 yrs<br>Future 25.4 yrs | Within acceptable range | ● |

# 2. Financial Statements: key judgements and estimates

**Significant judgement or estimate:** **Police Pension Scheme liability - £5,912m (p/y £8,291m)**

**Relates to:** Chief Constable / Group

**Summary of management's approach:**

The Chief Constable's Police Pension Scheme liability at 31 March 2023 is £5,912m (PY £8,912m). The Chief Constable operates three pension schemes for police officers, these are the 1987,2006 and 2015 Police Pension Schemes and the injury awards scheme.

The Chief Constable uses GAD to provide actuarial valuations of their Police Pension Scheme liabilities. A full actuarial valuation is required every four years.

Whist the last full actuarial valuation was completed in 2019 using 2016 data, the estimate of the pension liability at 31 March 2023 is based on relatively up-to-date membership data and assumptions (2020 data) Delays in the finalisation of the 2020 full quadrennial valuation have no impact on the amounts disclosed in the financial statements.

Given the significant value of the net pension fund liability (surplus), small changes in assumptions can result in significant valuation movements.

**Audit Comments:**

Our approach is in line with the audit plan and has involved:

- Assessment of management's expert
- Assessment of actuary's approach taken, detail work undertaken to confirm reasonableness of approach
- Use of PwC as auditors expert to assess actuary and assumptions made by actuary – use table to compare with Actuary assumptions
- Assessment of the completeness and accuracy of the underlying information used to determine the estimate
- Consideration of the impact of any changes to valuation method
- Reasonableness of increase/decrease in estimate
- Adequacy of disclosure of estimate in the financial statements

The actuary for the Police Pension Scheme have made no allowance for part-year inflation within their assumptions, despite unusually high inflation rates for the final 6 months of the year. (the CPI inflation from 30 September 2022 to 31 March 2023 was 4.12% (for 6 months), whereas the opening rate used by GAD was 3.00% per annum, as per the IAS19 report. This matter was equally applicable to other bodies where GAD is the actuary and was therefore raised at a national level and as a consequence GAD has reviewed its position and issued a revised report. GAD has now used an expected inflationary increase of 5.46% which has impacted on the obligations and deficit on all schemes. Management has restated the accounts in line with the revised report.

| Police Pension Scheme Assumptions (CC) | Actuary Value | PwC range | Assessment |
|---|---|---|---|
| Discount rate | 4.65% | 4.65% | |
| Pension increase rate | 2.60% pa | 2.60% pa | |
| Salary growth | 3.85% pa | 3.10% - 5.10% pa | |
| Life expectancy – Males currently aged 45/65 | Current:: 21.9<br>Future: 23.5 | Current: 21.2 - 21.9<br>Future 22.9 - 23.5 | |
| Life expectancy – Females currently aged 45/65 | Current - 23.5<br>Future: 25 | Current: 21.2 - 23.5<br>Future: 22.9 - 25.0 | |

**Assessment:**

We now consider that the revised accounts reflecting the updated actuary report to provide a more reliable estimate

# 2. Financial Statements: key judgements and estimates

| Significant judgement or estimate | Relates to | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|---|
| Minimum Revenue Provision - £2.02m (p/y £2.41) | PCC / Chief Constable / Group | The PCC and Chief Constable are responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.<br>Management has made a change to the policy to determining MRP for 2022/23 in relation to borrowing pre 2008. The revenue charge of £2.02m would have been £2.375m under the old policy. In 2021/22 the MRP was £2,414k (3.07% of the opening CFR)<br>This year the force have adopted:<br>Option 3 – Asset Life Method. Revenue provision is spread over the determined useful life of the Asset either in equal instalments or using an annuity method. The first charge can be delayed until the asset is operational. The Force have determined that 40 years is a reasonable period. This now applies to all borrowing<br>In the prior year:<br>Option 2 – Capital Financing Requirement Method. MRP is equal to 4% of the Capital Financing Requirement at the end of the previous year for pre 2008 borrowing.<br>The 2022/23 MRP reflects 2.5% of the opening CFR, which is not out of line with benchmarking. The approach adopted in in line with statutory requirements.<br>This new accounting policy and the financial impact is not currently disclosed in the financial statement | • MRP has been calculated in line with the statutory guidance and the PCC's and Chief Constable's policy on MRP complies with statutory guidance.<br>• Changes to the authority's policy on MRP have been reflected in the Treasury Management Strategy prior to the start of the financial year.<br>• The change in policy has not made a material impact on the annual MRP charge.<br>Government have consulted on changes to the regulations that underpin MRP, to clarify that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted. The consultation highlighted that the intention is not to change policy, but to clearly set out in legislation, the practices that authorities should already be following. Government will issue a full response to the consultation in due course. | |

# 2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas. [

| | | | ITGC control area rating | | | | |
|---|---|---|---|---|---|---|---|
| IT application | Level of assessment performed | Overall ITGC rating | Security management | Technology acquisition, development and maintenance | Technology infrastructure | Related significant risks/other risks | Additional procedures carried out to address risks arising from our findings |
| **Oracle** | ITGC assessment (design and implementation effectiveness only) | 🟡 | 🟡 | 🟢 | 🟢 | Officers having day to day operational access also have admin access | We considered those officers regarded as at higher risk as part of our journals testing strategy |
| **Altair** | ITGC assessment (design, implementation and operating effectiveness) | 🟡 | 🟡 | 🟢 | 🟢 | Officers having day to day operational access to Altair but also iTrent also have admin access | In addition to the journals procedures referenced above, we also extended our starter and leaver testing for payroll and pensions. |

**Assessment**

- 🔴 Significant deficiencies identified in IT controls relevant to the audit of financial statements
- 🟡 Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- 🟢 IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ⚫ Not in scope for testing

# 2. Financial Statements: matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

| Significant matter | Commentary | Auditor view and management response |
|---|---|---|
| Significant events or transactions that occurred during the year: the Force was responsible for policing the commonwealth games. In the year £71m of grant was received to support the policing of the games | We took account of the extraordinary grant income and expenditure in relation to the games in our assessment of materiality. We also treated journals associated with the games as 'higher risk' in our journals testing strategy. | No issues have arisen from this work |
| The balance sheet is not compliant with the Code in its setting out of Non-current asset, in particular Assets under construction have not been correctly reflected as intangible assets. | We are have agreed with management that a prior period adjustment is required in relation to the accounting for IT intangible assets under construction. Further detail is in Appendix C, audit adjustments. | Management should consider the need for a prior period adjustment to ensure the balance sheet and the supporting notes are prepared in line with the code. |
| Following the completion of a consultation exercise, it was anticipated that a statutory instrument would be issued in February 2024, which set out the transfer of the PCC function to the West Midlands Combined Authority. The responsibilities of the PCC would transfer to the mayor. | As this was a significant event, we agreed with management that it was a matter for a non- adjusting post balance sheet event disclosure. | Management has included a note in the draft accounts as a non-adjusting event after the reporting period.<br>This will now need to be revisited following the outcome of the recent high court challenge |
| Cashflow statement: the net proceeds from investments, is reflected rather than the gross cash receipts and payments. This is in line with prior years. | Our technical review highlighted that major classes of cash receipts and payments should be shown gross in the cash flow statement. | Management do not wish to adjust as in their judgement the code only requires management to 'consider' disclosing the gross cash receipts and payments. Management have considered this matter and do not believe that this changed would will provide any value to the user. |

# 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 previously discussed the risk of fraud with the Joint Audit Committee . We have not been made aware of any other incidents in the period and no other 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 have been requested from both the PCC and the Chief Constable, which are included in the Joint Audit Committee papers.<br>No specific representations have been requested |
| Confirmation requests from third parties | We requested from management permission to send confirmation requests to the property Valuers and to a number of organisations with whom the force holds investments. This permission was granted. All confirmations were received and deemed to be appropriate.<br>We obtained third party conformations on the PWLB borrowings, direct from the DMO website. We also obtained confirmation from Dudley MBC for the remaining borrowings.<br>No alternative procedures were deemed to be necessary. |
| 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 were provided.<br>The accounts were provided by the deadline and were supported by good working papers. Staff were supportive of the audit and no major delays were experienced. We did take longer than planned to completed our work on payroll as there was some delays experienced obtaining supporting evidence and explanations for variances in our payroll analytics. We also needed to undertake additional procedures due to the surplus position on the LGPS surplus and also needed to make further enquiries around the assumptions on the GAD pension valuation, in response to matters raised by the auditor's pension expert (PWC). |

# 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 | 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.<br>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:<br>• 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<br>• 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.<br>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:<br>• the nature of the PCC and Chief Constable and the environment in which they operate<br>• the PCC's and Chief Constable's financial reporting framework<br>• the PCC's and Chief Constable's system of internal control for identifying events or conditions relevant to going concern<br>• management's going concern assessment.<br>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:<br>• a material uncertainty related to going concern has not been identified for either the PCC or the Chief Constable<br>• 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 | We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.<br>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect |
| Matters on which we report by exception | We are required to report on a number of matters by exception in a number of areas:<br>• if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit,<br>• if we have applied any of our statutory powers or duties.<br>• where we are not satisfied in respect of arrangements to secure value for money and have reported significant weakness.<br>We have nothing to report on these matters |
| Specified procedures for Whole of Government Accounts | 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.<br>• Note that work is not required as the group does not exceed the threshold; |
| Certification of the closure of the audit | We intend to delay the certification of the closure of the 2022/23 audit of West Midlands **PCC and Chief Constable** in the audit reports, due to incomplete VFM work. |

# 3. Value for Money arrangements (VFM)

## Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. 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 now yet completed all of our VFM work and we have issued our Auditor's Annual Report to this committee. An audit letter explaining the reasons for the delay is attached in the Appendix to this report. We expect to issue our Auditor's Annual Report in February 2024. 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 consider 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. In December 2023, we reported to the JCC that we had now concluded that the PEEL inspection and the 'enhanced monitoring arrangements' may indicate that there is a risk of a significant weakness in arrangements. Subsequent to the JAC meeting the inspection report was formally issued. We note that statements from HMIC recognises that the new Chief Constable was aware of the weakness in arrangements and was rapidly putting in measures to address the concerns of the Inspectorate – although recognising that this would take time to have the desired impact.

Whilst the Peel Inspection took place during the 2023/24 financial year, much of the information on which the findings were based, related to the 2022/23 financial year and thus was relevant information for our Value for Money work.

We considered the issues raised by the inspectorate and also that the Force had been put into 'enhanced monitoring'. We have considered the findings against the VFM assessment criteria and to ensure consistency with other assessments, our conclusions were considered by a national VFM panel. The panel agreed with our conclusions.

The annual auditors report which we are presenting at the March committee now reflects a signficant weakness in Governance and Improving economy, efficiency and effectiveness and a key recommendation.

# 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 and consider that an objective reasonable and informed third party would take the same view. 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 in Appendix E.

### 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 Grant Thornton International Transparency report 2023.

### 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 current date.

# 4. Independence and ethics

As part of our assessment of our independence we note the following matters:

| Matter | Conclusion |
|---|---|
| Relationships with Grant Thornton | We are not aware of any relationships between Grant Thornton and the Group that may reasonably be thought to bear on our integrity, independence and objectivity |
| Relationships and Investments held by individuals | We have not identified any potential issues in respect of personal relationships with the Group or investments in the Group held by individuals |
| Employment of Grant Thornton staff | We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management role covering financial, accounting or control related areas. |
| Business relationships | We have not identified any business relationships between Grant Thornton and the Group |
| Contingent fees in relation to non-audit services | No contingent fee arrangements are in place for non-audit services provided |
| Gifts and hospitality | We have not identified any gifts or hospitality provided to, or received from, a member of the Group's board, senior management or staff that would exceed the threshold set in the Ethical Standard. |

# Appendices

A. Communication of audit matters to those charged with governance

B. Follow up of prior year recommendations

C. Audit Adjustments

D. Fees and non-audit services

E. Auditing developments

F. Audit opinion

G. Audit letter in respect of delayed VFM work

# A. Communication of audit matters to those charged with governance

| Our communication plan | Audit Plan | Audit Findings |
|---|---|---|
| Respective responsibilities of auditor and management/those charged with governance | • | |
| Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks | • | |
| Confirmation of independence and objectivity | • | • |
| A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence | • | • |
| Significant findings from the audit | | • |
| Significant matters and issue arising during the audit and written representations that have been sought | | • |
| Significant difficulties encountered during the audit | | • |
| Significant deficiencies in internal control identified during the audit | | • |
| Significant matters arising in connection with related parties | | • |
| Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements | | • |
| Non-compliance with laws and regulations | | • |
| Unadjusted misstatements and material disclosure omissions | | • |
| Expected modifications to the auditor's report, or emphasis of matter | | • |

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

### Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the 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.

### Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

# B. Follow up of prior year recommendations

We identified the following issues in the audit of west Midlands PCC and Chief Constable's 2021/22 financial statements, which resulted in two recommendations being reported in our 2021/22 Audit Findings report.

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| ✓ | 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. | Management update: 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 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.<br>Audit update: An assessment of assets not valued had been undertaken. The assessment of assets not valued indicated that the asset base was misstated by £178k as a consequence of the approach. This was not considered to be a significant concern. |
| ✓ | 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). Whist 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. | Management are content that by restating the PPE note to split the figures for revaluation between those recognised in the Surplus/deficit on the provision of services and those recognised in the revaluation reserve that this resolves that issue and the amounts are accurate. |

**Assessment**

✓ Action completed

X Not yet addressed

# C. Audit Adjustments

### Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2023.

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

| Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 | Impact on general fund £'000 |
|---|---|---|---|---|
| Revision to pensions due to revised IAS19 report | | | | |
| CIES (remeasurement of the benefit liability) | (10,202) | | | |
| Pensions liability | | 10,202 | n/a | n/a |
| Impact on unusable reserves) | | | | |
| HMRC VAT adjustment | | | | |
| Dr VAT (HMRC) | | 6,578 | n/a | n/a |
| Cr creditors (HMRC) | n/a | (6,578) | | |
| Cr VAT (HMRC) | | (8,496) | | |
| Dr Debtors (OC) | | 8,496 | | |
| Adjustment for AUC | N/a | (11,078) | n/a | n/a |
| Cr opening PPE (AUC) | | 11,078 | | |
| Dr intangibles (AUC) | | | | |
| **Overall impact** | £10,202 | (10,202) | 10,202 | |

# C. 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

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2023.

| Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 | Impact on general fund £'000 |
|---|---|---|---|---|
| IFRIC 14 (CC and group accounts) | | | | |
| | | 17,100 | | |
| Cr pensions liability (LGPS CC) | 17,100 | | 17,100 | |
| Dr remeasurement of the net defined liability (CC) | | | | £0 |
| GAD inflation | | | | |
| Cr pensions liability | | 108,600 | | |
| Dr remeasurement of the net defined liability (CC) | 108,600 | | 108,600 | £0 |
| **Overall impact** | £135,902 | (135,902) | 10,202 | |

# C. Audit Adjustments

### Impact of adjusted misstatements

### Prior period adjustments

### AUC

Notes 27 and 30 within the draft accounts are misstated because assets under construction that relate to Intangible assets should be included within note 31 (intangibles) rather than Property plant and equipment. This impacts on brought forward balances . The balance sheet has also been restated to be compliant with the code.

A PPA is required, which includes a third balance sheet showing the position at 1 April 2021 because the treatment of intangible AUC was incorrect in the prior year. Material errors in the prior year require the accounts to be restated. This includes the balance sheet, Note 27 and note 31.

An additional note setting out the reason for the PPA and the notes impacted is required to be included in the accounts.

### Restated balance sheet

| | 1 April 2021 £000 | PCC as at 31 March 2022 £000 | Group as at 31 March 2022 £000 | PCC as at 31 March 2023 £000 | Group as at 31 March 2023 | GT comments |
|---|---|---|---|---|---|---|
| Property Plant and equipment | | | | | | |
| Land and Buildings | 138,211 | 173,161 | 173,161 | 180,284 | 180,284 | |
| Vehicles, Plant, Furniture and Equipment | 28,839 | 33,547 | 33,547 | 29,984 | 29,984 | |
| Assets Under Construction | 28,790 | 898 | 898 | 0 | 0 | AUC reduced by AC included in intangibles |
| Heritage Assets | 186 | 186 | 186 | 186 | 186 | |
| Intangible Assets | 9,657 | 20,799 | 20,799 | 18,516 | 18,516 | |
| Intangible Assets Under construction | 21,087 | 11,078 | 11,078 | 0 | 0 | New category |
| | 226,770 | 239,669 | 239,669 | 228,970 | 228,970 | |

### MIRS/Pension reserve

| CC accounts | Note 16 | MIRS | Difference |
|---|---|---|---|
| Reversal of IAS 19 charges | 443.956 | 350.568 | 93.388 |
| charge to GF | 206.959 | 112.607 | 94.352 |
| net change | -236.997 | -237.961 | 0.964 |

| PCC Group accounts | Note 18 | MIRS note 25 | Difference |
|---|---|---|---|
| Reversal of IAS 19 charges | 445.658 | 352.270 | 93.388 |
| charge to GF | 207.499 | 113.172 | 94.327 |
| net change | -238.159 | -239.098 | 0.939 |

# C. 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.

### 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/issue/Omission | Adjusted ? |
|---|---|
| Narrative foreword: The foreword did not make any reference to Commonwealth Games or the £9m impairment in intangibles , despite these having a significant impact on income and expenditure in year. | ✓ |
| CIES: Other Operating income has been repositioned in the CIES | ✓ |
| 'Responsibilities of CFO refer to year end 31 March 2021 (group) and March 2021 CC, instead of 2023 | ✓ |
| Note 1:  accounting policies (group) refers to 20-21 Code | ✓ |
| Note 1: accounting policies: There is necessary disclosure regarding IFRS 16. This is only required if IFRS 16 is being implemented in the subsequent year and should then report the impact on the accounts | no |
| Note 1 a) Accounting policies refers to the full valuation in Dec 2018, but not to the subsequent valuations referred at page 71 which should also have been carried out in accordance with RICS. | ✓ |
| Note 3: Future estimation uncertainty: 'Effect if actual results differ from assumptions' column  disclosure could  be enhanced by x-ref to the sensitivity analysis on pension assumptions | ✓ |
| Accounting policies refers to the full valuation in Dec 2018, but not to the subsequent valuations referred at page 71 which should also have been carried out in accordance with RICS. | |
| Note 4: events after the reporting period.<br>There was a dispute with HMRC over a £1.9m Vat claim which was resolved in September, against the Force.  The accounting for this has resulted in  a £6m increase in debtors  (with the commonwealth organising committee) and a corresponding increase  in creditors with HMRC as reflected in the adjusted misstatements. | ✓ |

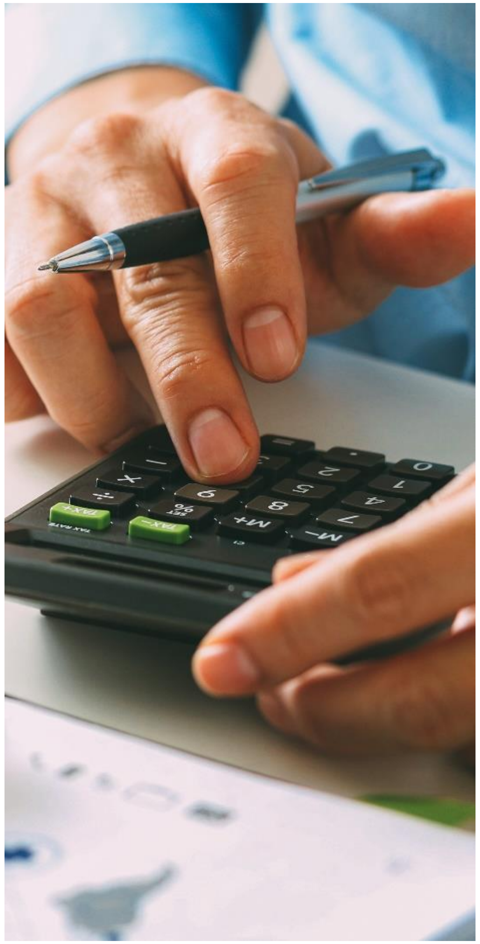
# C. Audit Adjustments

Misclassification and disclosure changes (continued)

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

| Disclosure/issue/Omission | Adjusted ? |
|---|---|
| Note 10 CC; Note 11 group: We have identified a difference between the 21-22 comparative exit packages disclosure note and the 21-22 signed accounts. This is due to an error in the 21-22 accounts - one of the exit packages did not include the pension strain element (£113k) due to the invoice not being received until after year end and no accrual being made for the amount. We have confirmed that the updated 21-22 figures within the current year accounts are correct, however as the sum is material in relation to our lower materiality for the Remuneration report – we are requiring the client to add a footnote. | ? |
| Note 31: Intangibles: Prior year comparatives total column does not cast correctly (note this does not impact on the total intangibles balance per the balance sheet). The difference is not material and therefore does not require a PPA, | ✓ |
| Note 14 / 43 : Accumulated absence account. The descriptors don't tie up with the values presented i.e. ' amounts accrued at the end of the current year' is not 9.167m (or 9.233m for Group) | ✓ |
| Note 29: Future capital commitments: Comparatives are required (for the PCC) | ✓ |
| Note 27: PPE Note: The revaluations movements should be separated to show the movements charged to the revaluation reserve and the movements charged to the CIES | ✓ |
| Note 34: Short term investments – note 34 did not tie up to the primary statement because some short-term investments were included | ✓ |
| note 38: short term debtors and , note 41: short term creditors: other entities and individuals is a significant element of the balance - could this be further broken down to make the note more meaningful | ✓ |

# C. Audit Adjustments



### Impact of unadjusted misstatements

There are no unadjusted misstatements yet identified. We have yet to receive the service auditor report and there may be further adjustments as a consequence.

### Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2021/22 financial statements. As we currently have no unadjusted misstatements, we do not have a cumulative matter of concern for the 2022/23 financial statements.

| Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Reason for not adjusting |
|---|---|---|---|
| Seized cash was reported on the balance sheet at £2.7 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 even a contingent liability, Reclassification within the balance sheet: | n/a | | Immaterial to the financial statements |
| Dr Creditors | | 2,758 | |
| Cr Provisions | | (2,758) | |
| WMROCU grant income that WMP should only recognise their share of income in the CIES. Reduce income and expenditure in the CIES. | | | |
| Dr grant income | 1,032 | | |
| Cr expenditure | (1,032) | | |
| Lagged assets – pension fund investment valuation – as provided by pension fund auditor | | | |
| Dr net pension fund liability (factual) | | 4,221 | |
| Dr net pension fund liability | | 1,122 | |
| Cr return on assets (CIES) | (5,343) | | |
| Overall impact | £5,343 | £5,343 | |

# D. Action plan – Audit of Financial Statements

We have identified 2 recommendation for the Force as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2022/23 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| Medium | **Journal controls**<br>We have identified a control weakness as there is no authorization of journals.<br>We consider that journals are a key area in our significant risk of management override of controls, hence the absence of a sound system for journals authorization is considered to be a key weakness in arrangements.<br>We have had to incorporate extended testing to address our assessment of increased risk in journals. | Whilst we acknowledge that there is a high volume of journals and this is an area where management is accepting of a perceived risk and batch reviewing of posted journals by budget holders is considered to be an acceptable compensating control.<br>We also note that individuals are required to seek approval for large journals via email – however whilst this goes someway to providing a compensating control – it is clearly still possible for an individual to post a large journal without authorisation<br>We recommend that management introduces a limit within the system for individuals to post higher risk journals without authorisation, such as high value or month 13 journals.<br>**Management response**<br>In addition to the controls in place, we will consider introducing a limit within the system for high risk/ high value journals. We are happy to agree our approach with GT colleagues before this is implemented |
| Medium | **Privileged IT user rights and IT segregation of duties: Users have in appropriate access rights which may create improper segregation of duties:**<br>**Itrent:** the payroll team leader has an operational role and admin access which we consider presents a risk<br>**Oracle fusion (financial core system):**<br>We identified 17 users with more privileged access in the Oracle fusion than expected<br>Altair system (pension):<br>We noted that 2 individuals had elevated permissions (same as the prior year) | Management should be cognisant of the fraud risk associated with individuals having both elevated access (admin control) and also undertaking operational roles.<br>We recommend that management regularly review access rights for individuals and whether such a need is necessary<br>Management should ensure that audit logs are maintained and reviewed of activity in relation to individuals with elevated access<br>**Management response**<br>Whilst there are tight controls around granting system access, management agree to review access levels on a regular basis. We will also explore the option of switching on audit logs/ a review process where access levels are above the normal levels. |

**Controls**

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

# E. Fees and non-audit services

We confirm below our final fees charged for the audit.  No none audit  service s have been undertaken.  The audit fees reconcile with the financial statements, except for the proposed fee variations indicated below,

| Audit fees- | PCC | Chief Constable |
|---|---|---|
| Scale fee | 37,826 | 21,719 |
| Use of expert | 3,000 | 2,500 |
| Use of expert – audit team review and liaison | 500 | 500 |
| Value for Money audit – new NAO requirements | 11,302 | 4,625 |
| ISA 540 | 1,800 | 900 |
| ISA 315 | 4,000 | 2,450 |
| Additional journals testing | 3,000 | 2,000 |
| Quality review – response to FRC (Hot Review) | 1,000 | 550 |
| Payroll – change in circumstances | - | 500 |
| Other – additional work on PPE following change in valuers | 500 | - |
| Planned audit fees (excluding VAT) | £62,928 | £35,744 |
| Fee variation proposed: additional VFM work re Peel inspection (not known at planning) | 1,500 | |
| Fee Variation proposed: pensions work – to resolve matters on GAD inflation, IFRIC 14 & PF auditor report – team and auditor expert | 1,000 | 5,500 |
| Final proposed fee | 65,428 | 41,244 |

# F. Auditing developments

## Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
**This impacts audits of financial statement for periods commencing on or after 15 December 2021.**
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

| Area of change | Impact of changes |
|---|---|
| Risk assessment | The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of:<br>• the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures<br>• the identification and extent of work effort needed for indirect and direct controls in the system of internal control<br>• the controls for which design and implementation needs to be assess and how that impacts sampling<br>• the considerations for using automated tools and techniques. |
| Direction, supervision and review of the engagement | Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures. |
| Professional scepticism | The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to:<br>• increased emphasis on the exercise of professional judgement and professional scepticism<br>• an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence<br>• increased guidance on management and auditor bias<br>• additional focus on the authenticity of information used as audit evidence<br>• a focus on response to inquiries that appear implausible |
| Definition of engagement team | The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor.<br>• Consideration is also being given to the potential impacts on confidentiality and independence. |
| Fraud | The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to:<br>• clarification of the requirements relating to understanding fraud risk factors<br>• additional communications with management or those charged with governance |
| Documentation | The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed. |

# G. Audit opinion

**Our anticipated audit report opinion will be unmodified**

# H. Audit Letter for delayed VFM

Grant Thornton

Our ref:
Your ref:

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17 September 2023

Dear Simon and Craig

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest. Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work as quickly as would normally be expected. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 31 December 2023.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Andrew Smith

Partner



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