Grant Thornton

The Joint Audit Findings
Police and Crime Commissioner for West Mercia and Chief Constable for West Mercia

Year ended 31 March 2019

July 2020

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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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Headlines

This table summarises the key findings and other matters arising from the statutory audits of West Mercia Police and Crime Commissioner ('the PCC') and West Mercia Chief Constable and the preparation of the PCC and Chief Constable's financial statements for the year ended 31 March 2019 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 entity's (and where relevant, the group's) financial statements: • give a true and fair view of the financial position of the entity and the entity's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was predominantly completed on site during June and July 2019. Further work has been completed to address emerging issues that have arisen since then. Our findings are summarised on pages 3 to 11. We have identified a number of adjustments to the financial statements that have resulted in a £101m adjustment to the Group's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix A. 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 group financial statements which consolidate the financial activities of the Chief Constable) or the Chief Constable's financial statements, subject to the outstanding matters listed on the following page. 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. Our anticipated audit opinions will be unmodified.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, both entities have made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based reviews of the PCC's and Chief Constable's value for money arrangements. We have concluded that except for the arrangements in relation to the dissolution of the Strategic Alliance, both the West Mercia PCC and the West Mercia Chief Constable have proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing qualified 'except for' value for money conclusions, as detailed in Appendix C. Our findings are summarised on pages 12 to 16.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audits.	We have not exercised any of our additional statutory powers or duties to date for either entity. We expect to be able to certify the completion of the audits when we give our audit opinion.

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

Summary

Overview of the scope of our audit

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

As auditor we are responsible for performing the audits, 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.

Our approach to materiality

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

Materiality calculations remain the same as reported in our audit plan. For our audit testing purposes we apply the lowest of these materiality levels, which is £4,600k (PY £4,600k), which equates to 1.9% of the PCC's prior year gross expenditure:

	Group Amount (£)	Chief Constable Amount (£)	PCC Amount (£)
Materiality for the financial statements	£5,000k	£4,800k	£4,600k
Performance materiality	£3,750k	£3,600k	£3,450k
Trivial matters	£230k	£230k	£230k
Materiality for disclosures relating to: • Senior Officer Remuneration; and • Exit Packages.	£100k	£100k	£100k

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 its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you in January.

Conclusion

We have substantially completed our audits of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the satisfactory completion of our work. These outstanding items include:

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

Significant findings – audit risks

	Risks identified in our Audit Plan	Relates to	Commentary
1	**The revenue cycle includes fraudulent transactions** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated 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.	PCC and Chief Constable	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the group, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including the PCC and Chief Constable for West Mercia, mean that all forms of fraud are seen as unacceptable **Therefore we do not consider this to be a significant risk for the PCC and Chief Constable.** Our audit work has not identified any issues in respect of revenue recognition.
2	**Management over-ride of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk 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, 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.	PCC and Chief Constable	We have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determine the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. We have not identified any issues in respect of management override of controls.

Significant findings – audit risks

	Risks identified in our Audit Plan	Relates to	Commentary
3	**Valuation of land and buildings (rolling revaluation)** The PCC revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the PCC and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	PCC only	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • communicated with the valuer to confirm the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • tested revaluations made during the year to see if they had been input correctly into the PCC's asset register; and • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. We have not identified any issues in respect of valuations of the PCC's property.

Significant findings – audit risks

	Risks identified in our Audit Plan	Relates to	Commentary
4	**Valuation of the pension fund net liability** The group's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£2.7 billion in the group's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	PCC and Chief Constable	We have: • 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; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the group's pension fund valuations; • assessed the accuracy and completeness of the information provided by the group to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • 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. The PCC and Chief Constable requested that the actuary give consideration to the liability arising as a result of the legal ruling around age discrimination (McCloud), which were omitted from the first actuarial valuation. This resulted in increases in net pension liabilities of £114m. The financial statements have been amended for this. Since the actuaries performed their original estimates of the pension liabilities as at 31 March 2019, more up to date information has become available that has enabled the actuarial valuations of both the Police Pension Scheme and the Local Government Pension Scheme to be better estimated. This resulted in decreases in net pension liabilities of £23m. Given the size of the decreases. the financial statements have been amended for these figures. See Appendix A for further detail on the above adjustments. Our audit work in this area has not identified any other issues in respect of valuation of the Chief Constable's, PCC's and group's net pension liabilities.

Significant findings – key judgements and estimates

	Relates to	Summary of management's policy	Audit Comments	Assessment
Net pension liability Draft: £2,646.8m Final: £2,737.4m	PCC and Chief Constable	The group's net pension liability at 31 March 2019 is £2,737.4m (PY £2,509.7m) comprising obligations under the Police Pension Schemes and the Local Government Pension Scheme. The group use GAD and Mercer to provide actuarial valuations of the group's assets and liabilities derived from the schemes. For the LGPS, a full actuarial valuation is required every three years. At the time of the preparation of the draft 2018/19 financial statements, the latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Since then, the full actuarial valuation of the LGPS at 31 March 2019 has been completed, and the pension liability has been updated to incorporate the impact of this valuation. In addition, GAD have revised their methodology since the initial calculation of the PPS liability to provide more accurate estimates. The pension liability has been updated to incorporate the impact of this valuation. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.	• We have no concerns over the competence, capabilities and objectivity of the actuaries used by the group. • We have used the work of PwC, as auditors expert, to assess the actuary and assumptions made by the actuaries. See below for consideration of key assumptions in the Police Pension Fund valuation: • No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate. • There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above. • We have confirmed that the group's share of the Local Government Pension Scheme assets is in line with expectations. • Disclosure of the estimate in the financial statements is considered adequate. • Material adjustments have been made to the financial statements as a result of the omission of liabilities relating to McCloud, and revised estimates of the liability at 31 March 2019 (see Appendix A).	 **Amber** (due to material adjustments for McCloud)

Assumption	GAD's Value	PwC's expected range	Assessment
Discount rate	2.45%	2.45%	●
Pension increase rate	2.35%	2.35%	●
Salary growth	4.35%	4.35%	●
Life expectancy – Males currently aged 45 / 65	24.6 22.7	22.6 – 24.6 20.7 – 22.7	●
Life expectancy – Females currently aged 45 / 65	26.2 24.3	22.6 – 26.2 20.0 – 24.3	●

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process and key assumptions to be reasonable

Significant findings – key judgements and estimates

	Relates to	Summary of management's policy	Audit Comments	Assessment
Land and Buildings £55.8m	PCC	The PCC has engaged PPL to complete the valuation of its properties. Approximately 50% of the PCC's Land and Building assets were subject to a full, formal valuation process at the balance sheet date, with the remaining 50% last valued in March 2018. The PCC's Land and buildings comprises specialised assets such as police stations, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end.	• We have not noted any issues with the completeness and accuracy of the underlying information used to determine the estimate. • We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the PCC. • There have been no changes to the valuation method this year. • We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert. This work has not raised any issues with the 2018/19 valuations. • Disclosure of the estimate in the financial statements is considered adequate.	Green
Other accruals and estimates	PCC and Chief Constable	The PCC and Chief Constable continue to apply estimates and judgements in a number of areas, such as accruals of income and expenditure.	• The policies for these items are in line with accounting standards and the requirements of the Code of Practice on Local Authority Accounting. • Disclosure of the estimates in the financial statements is considered adequate. • As part of our testing, we have reviewed the judgements applied by the PCC and Chief Constable relating to these items, and significant balances within these have been discussed with management in detail. • We have found no material misstatements in the financial statements relating to these balances. • Since the time that the draft financial statements were prepared, the PCC and Chief Constable have agreed a financial settlement with their counterparts in Warwickshire as a result of terminating the Strategic Alliance. As this provides information about circumstances as at 31 March 2019, an adjustment has been made to incorporate the settlement payment in the PCC's balance sheet. See Appendix A for more information.	Green

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentiallymaterially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptionswe consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process and key assumptions to be reasonable

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 for both West Mercia PCC and West Mercia Chief Constable.

	Issue	Commentary
1	**Matters in relation to fraud**	We have previously discussed the risk of fraud with the Joint Audit and Standards Committee. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	We are not aware of any related parties or related party transactions which have not been disclosed.
3	**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.
4	**Written representations**	Letters of representation have been requested from each of the PCC (including specific representations in respect of the group), and the Chief Constable.
5	**Confirmation requests from third parties**	We requested from management permission to send confirmation requests to the PCC's counterparties. This permission was granted and the requests were sent. Where responses were not received, we undertook alternative procedures to confirm balances with no issues noted.
6	**Disclosures**	Our review found no material omissions in the financial statements.
7	**Audit evidence and explanations / significant difficulties**	All information and explanations requested from management was provided.

Other responsibilities under the Code

	Issue	Commentary
1	**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. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
3	**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 group audit instructions. Detailed work is not required by the NAO as the PCC and Chief Constable do not exceed the threshold.
4	**Certification of the closure of the audit**	We intend to certify the closure of the 2018/19 audit of West Mercia PCC and West Mercia Chief Constable in the audit opinion.

Value for Money

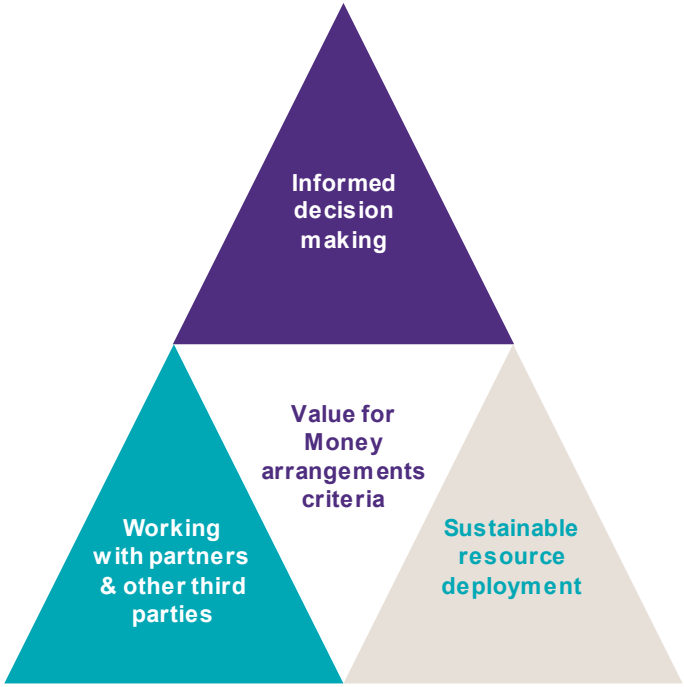
Background to our VFM approach

We are required to satisfy ourselves that the PCC and Chief Constable have made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the PCC and Chief Constable. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in March 2019 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our update in April 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the PCC and Chief Constable's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the PCC and Chief Constable's arrangements. Our main considerations are summarised on the following pages, along with more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work.

Significant difficulties in undertaking our work

Due to ongoing discussions and negotiations relating to the dissolution of the Strategic Alliance, we experienced delays in our work to address the associated significant risk. We have been in regular communication with management during this period, and have liaised with the PCC and Chief Constable to discuss our work and our findings.

Significant matters discussed with management

Other than the observations we refer to on page 14, there were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Overall conclusion

Based on the work we performed to address the significant risks we are satisfied that, except for the matters we identified in respect of the dissolution of the Strategic Alliance, the PCC and Chief Constable each had proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We therefore propose to give a qualified 'except for' conclusion in respect of both the PCC's and the Chief Constable's arrangements.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work performed & Findings
Project management and delivery	
Internal audit's report on the alliance's fleet telematics project, issued during 2018/19, raised fundamental issues relating to decision making, project management and contract management. Although the telematics contract itself did not have a material financial value, the alliance had a number of other significant projects in train; some of which were experiencing delays and issues of their own.	We have considered Internal Audit's detailed report and findings, and management's work to address the issues found. Management's responses to the report were initially very high level, and additional detail was required before Internal Audit were able to finalise the report. Management were aware of the project management issues and weaknesses before IA issued their report and were already working to address them. The Alliance's Senior Programme Manager joined at the beginning of the 2017/18 year, and at that point performed a full review of the state of the Alliance's 'Change Maturity'. This review was revisited at intervals to assess whether progress was being made, and improvements were being noted. As a result of the Internal Audit findings, all ongoing projects were reviewed and aligned to the Alliance's Change Delivery Framework. Guidance was provided to Project and Programme Managers following this. Other significant projects ongoing during the 2018/19 year were the Athena programme, changes to the Operations and Communications Centres, changes to services to policing, and the dissolution of the Alliance (which is considered as a separate VFM risk). Towards the end of 2017/18, Alliance Transformation Programme reports began to be created, to keep the Transformation Team aware of the risks and progress on key transformation projects. During 2018/19 additional reporting was incorporated into these reports, to detail not just variances to costs and benefits between the business case and the forecast, but also variances to planned delivery timescales. We have reviewed other Internal Audit reports on significant IT projects during the 2018/19 financial year and confirmed that no similar concerns were raised in relation to other projects. We have also reviewed the plans of the Alliance IT working group. We note that concerns have been raised in relation to the impact of the dissolution of the strategic alliance on other projects, but this has been considered as a separate VFM risk.

Conclusion

The issues highlighted by Internal Audit in their report on telematics were largely known to the project management team before it was issued, and work has been ongoing for the last couple of years to address these. Management also reviewed the report, and key messages were circulated to staff as required.

Internal Audit's subsequent reports on other significant projects did not raise any similar issues.

We note that the dissolution of the Strategic Alliance has a potential knock-on impact on other projects. Management were aware of this risk and were working to mitigate it, however a lack of resources and lack of clarity was hindering decision making. This is considered further as a separate VFM risk.

We have concluded that the PCC and Chief Constable have mitigated this risk and have planned effectively to support the delivery of strategic priorities and maintain statutory functions through sustainable resource deployment. We are satisfied that the arrangements in place during the 2018/19 year were adequate, and are not qualifying our Value for Money Conclusion in this regard.

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Significant risk	Work performed & Findings
The dissolution of the Strategic Alliance West Mercia Police and Warwickshire Police have been in a strategic alliance since 2012. On 8 October 2018, West Mercia's PCC and Chief Constable issued a joint notice to their counterparts in Warwickshire setting out that they would withdraw from the alliance agreement, as it stood, on the 8 October 2019. This allowed 12 months for each Force to plan for a smooth exit and design the services which were to be in place post October 2019.	In their publicly available Decision Notice relating to the ending of the Strategic Alliance with Warwickshire Police, West Mercia stated that: "*The structure of governance prescribed within the existing alliance collaboration agreement is not preventing the maximisation of effectiveness, efficiency and benefit realisation, rather than enabling it.* *These issues have been manifested in a number of areas within West Mercia police … limiting the quality of day-to-day services to local communities.* *The PCC has statutory obligations regarding securing police effectiveness and efficiency and keeping collaborations under review. To simply tolerate the problems created by the current alliance governance arrangements would be neither in the public interest, nor meet the PCC's statutory duties.* *Attempts have been made to reform the alliance arrangement with Warwickshire over a prolonged period of time, however improvements have not been possible to the level required.*" Prior to the decision to serve notice, West Mercia PCC and Chief Constable considered the legal and financial impact of several alternative options, ranging from doing nothing to serving notice to fully exit the Strategic Alliance. This included high level financial assumptions and a cost analysis which demonstrated that acting as two individual forces would be more expensive for both West Mercia and Warwickshire, with significant one-off costs involved for separation. This analysis was subsequently shared with Warwickshire after serving notice. West Mercia PCC and Chief Constable have stated that they considered these costs in conjunction with the planned savings expected from the Services to Policing transformation programme. These savings would more than offset the additional annual operational costs of working alone, and eventually make up for the one-off costs of separation. We have received no contemporaneous documentary evidence that this was formally considered prior to serving notice, or that the likelihood of West Mercia still being able to deliver their share of the savings from Services to Policing, which was an Alliance programme, was re-assessed. The options appraisal also contained a recommendation that "reasonable costs and liabilities of implementation of exit strategy need to be assessed…", as West Mercia PCC and Chief Constable would be liable for these, as the parties serving notice. This assessment was not completed prior to serving notice on the alliance, as it was the PCC's and Chief Constable's view that these could only be fully clarified through the negotiation process with Warwickshire. We note that, per their published 2018/19 PEEL inspection report, HMICFRS also did not receive any business case for the dissolution, despite requesting it over a period of many months. In February 2019 West Mercia stated in the media that they have been subsidising policing in Warwickshire. In previous years the PCC and Chief Constable had both made representations that they were satisfied that the cost sharing model set out in the Agreement which apportions costs and benefits relating to the alliance 69% to West Mercia and 31% to Warwickshire was a reasonable estimate. We as external auditors recommended each year that a formal review be undertaken. An analysis of the shared costs for the first half of 2018/19 was completed by West Mercia in December 2018. This demonstrated that a fairer apportionment of costs could be 68% / 32%, but this modelling used different

Value for Money

assumptions to those used in the original model. We have not performed a detailed assessment of the assumptions made in this analysis. We note that the cost sharing model in the new agreements for collaborated services between Warwickshire and West Mercia are based on Net Revenue Expenditure which was 68.3% West Mercia and 31.7% Warwickshire in 2019/20. We have been informed that this will be updated annually. In these agreements West Mercia will also levy a charge on Warwickshire for premises costs.

HMICFRS state in their 2018/19 PEEL report that "…for several reasons, there is no accurate record of the additional costs incurred by one force in the support that it provides to the other. Recording the exact time that officers spend supporting the other force is difficult: the precise cost of that time and associated overheads is unknown and the forces have not made these calculations a priority over the history of the alliance."

Following notice being issued, Warwickshire's PCC and CC stated that they had no prior warning about the termination letter. They told their Police and Crime Panel (25 October 2018) that the West Mercia PCC had informed the Warwickshire PCC of his intention to terminate the alliance on 1 October 2018 which was the first time the possibility of such an action had been raised. West Mercia dispute this and informed their Police and Crime Panel (29 October 2018) that discussions had been ongoing with Warwickshire since May 2017 attempting to resolve the issues.

Although we have seen contemporaneous notes and correspondence showing discussions to amend the Strategic Alliance had been ongoing, we have received no evidence that the possibility of ending the Strategic Alliance was discussed prior to October 2018.

West Mercia have stated that their intention was not to withdraw from collaboration with Warwickshire, but to redesign the form of collaboration that was in place. Their letter of notice refers to the possibility of negotiations, including a future relationship, if that is Warwickshire's intent. We are aware that amendments were made to the collaboration agreement in July 2018 to exclude local policing, and that work was ongoing on the 'Services to Policing' programme, however, we have seen no evidence that West Mercia's intention to redesign the form of the collaboration was discussed with Warwickshire prior to notice being served.

After notice was served, a significant amount of work was completed in the latter half of 2018/19 to determine whether there were any areas or services where future collaboration with Warwickshire was desired. Relationships between the Warwickshire and West Mercia Police and Crime Commissioners and Chief Constables quickly deteriorated further, with the Home Office intervening in October 2019 to mandate an extension to the existing arrangements.

West Mercia's PCC and Chief Constable have a number of other partnerships, which include local councils and other emergency services, national policing initiatives, and Place Partnership Limited. We have not identified any issues or significant risks in relation to these relationships through the course of our work.

Value for Money

Conclusion

Despite West Mercia's views of the inefficiencies and reduced effectiveness, Warwickshire Police and Crime Commissioner and Chief Constable have stated that they did not anticipate the decision to terminate the Strategic Alliance and consequently there were no plans initially in place to deal with the termination. When notice was served, the operational impact of the dissolution on policing in West Mercia was expected to be minimal, as they were in a stronger position than their Warwickshire counterparts. Relationships between the respective Police and Crime Commissioners and Chief Constables quickly deteriorated further after the serving of notice.

We have concluded that these matters are evidence of weaknesses in proper arrangements for working with third parties effectively to deliver strategic priorities.

We have been provided with a rationale for the basis of the decision to terminate the agreement, and a paper considering a number of options available to the Police and Crime Commissioner and Chief Constable. However, we have received no documentation, such as meeting minutes, to support how these options were considered and how a preference was determined. The options appraisal also noted areas that required further consideration, including the costs and liabilities of implementation of exit strategy, and we have received no evidence that this was done prior to serving notice. This conclusion is supported by the HMICFRS's Police Effectiveness, Efficiency and Legitimacy report for 2018/19 which states that the "decision to terminate the alliance does not appear to have been based on a well-evidenced business case".

We have concluded that these matters are evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management including where relevant, business cases supporting significant investment decisions.

We propose to issue a qualified 'except for' conclusion in respect of both the PCC's and the Chief Constable's arrangements.

Developments in 2019/20

Since the end of the financial year, formal consideration was given to detailed business cases for potential areas of collaboration, but ultimately these were not agreed.

Development of transition plans for services began, along with discussions of a settlement relating to the 'reasonable costs of exit' from the Strategic Alliance. Negotiations were not able to reach agreement, even following mediation sessions.

On 7 October 2019, the Home Secretary wrote to both Warwickshire's and West Mercia's Police and Crime Commissioner and Chief Constable, instructing them to continue the existing arrangements for six months, and notifying them that an independent team would be appointed to review the financial information prepared by both sides to support the two estimates of the costs of exit.

On 30 March 2020, both Police and Crime Commissioners and Chief Constables agreed a settlement of £10.5m from West Mercia to Warwickshire to cover the costs of separating the services the two forces had previously shared under the alliance agreement. Four new areas of collaborations have been agreed to deliver four key services together from 1 April 2020, to ensure smooth transition after the Strategic Alliance, which will formally end on that date.

We will consider the above, and subsequent developments during the 2019/20 financial year, as part of our VFM conclusion in 2019/20.

Independence and ethics

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

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B.

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.

Audit Adjustments – Chief Constable

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 known at the time of drafting this report are set out in detail below along with the impact on the key statements for the year ending 31 March 2019. Adjustments in the Chief Constable's financial statements will be adjustments in the group position in the PCC's financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000
Actuarial Valuations		
Our work identified an adjustment to the net pension liability as at 31 March 2019. The actuary's initial valuations did not give consideration to the liability arising as a result of changes relating to a legal ruling around age discrimination (McCloud). The Chief Constable instructed GAD (their actuary) to reperform their valuations, with the revised valuation including liabilities as a result of McCloud of £113,194k.		
In addition, while reperforming their valuation, the actuary identified that actual rate of return on the Worcestershire LGPS's assets for the year differed from that assumed by the actuary by £674k for West Mercia Chief Constable.		
The following adjustment has therefore been made to the financial statements:		
Dr Past Service Costs (Cost of Services)	113,194k	
Dr Return on Assets (re-measurement of the net defined benefit liability)	674k	
Cr Pension Liability		(113,868k)
Actuarial Valuations		
Since the actuaries performed their original estimates of the pension liabilities as at 31 March 2019, more up to date information has become available that has enabled the actuarial valuations of both the Police Pension Scheme and the Local Government Pension Scheme to be better estimated.		
For the LGPS, the formal triennial valuation of the pension fund as at 31 March 2019 has now been completed, and for the PPS, GAD have revised their methodology to better reflect local data. As both of these events provide better information about the conditions at 31 March 2019, we requested that management ask their actuaries to revisit the estimations.		
The following adjustment has been made to the financial statements:		
Dr Pension Liability		25,436k
Cr Past Service Costs (Cost of Services)	(7,733k)	
Cr Asset and Liability Remeasurements (Re-measurement of the net defined benefit liability)	(17,703k)	
Total Adjustment	**£88,432k**	**(£88,432k)**

Audit Adjustments – PCC

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 known at the time of drafting this report are set out in detail below along with the impact on the key statements for the year ending 31 March 2019. In addition, adjustments in the Chief Constable's financial statements will impact on the group position in the PCC's financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000
Actuarial Valuations		
Our work identified an adjustment to the net pension liability as at 31 March 2019. The actuary's initial valuations did not give consideration to the liability arising as a result of changes relating to a legal ruling around age discrimination (McCloud). The PCC instructed Mercer (their actuary) to reperform their valuations, with the revised valuation including liabilities as a result of McCloud of £100k.		
In addition, while reperforming their valuation, the actuary identified that actual rate of return on the Worcestershire LGPS's assets for the year differed from that assumed by the actuary by £22k for West Mercia PCC.		
The following adjustment has therefore been made to the financial statements:		
Dr Past Service Costs (Cost of Services)	100k	
Dr Return on Assets (re-measurement of the net defined benefit liability)	22k	
Cr Pension Liability		(122k)
Actuarial Valuations		
Since the actuary for the LGPS performed their original estimates of the pension liabilities as at 31 March 2019, the formal triennial valuation of the pension fund as at 31 March 2019 has been completed, providing more up to date information that has enabled the actuarial valuation to be better estimated. We requested that management ask their actuary to revisit the estimate.		
The following adjustment has been made to the financial statements:		
Dr Past Service Costs (Cost of Services)	134k	
Dr Asset and Liability Remeasurements (Re-measurement of the net defined benefit liability)	1,961k	
Cr Pension Liability		(2,095k)

Audit Adjustments – PCC (continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000
Settlement to Warwickshire Police		
In March 2020, West Mercia PCC and Chief Constable signed a financial settlement agreement with their counterparts in Warwickshire. West Mercia agreed to pay Warwickshire £10,500k, which is net of £270k 'being the sum that Warwickshire would, but for this Agreement, pay West Mercia for the extension period of the 2018 SACA until 8 April 2020'.		
At 31 March 2019, there was a significant degree of uncertainty in relation to this liability, so it is appropriate to recognise it as a provision in the financial statements. Per IAS 10, the signing of the agreement gives evidence of circumstances that existed at the balance sheet date and should be incorporated into the financial statements.		
The following adjustment has been made to the financial statements:		
Dr Settlement to Warwickshire (Provision of Services)	10,500k	
Cr Long Term Provisions		(10,500k)
Total Adjustment	**12,717k**	**(12,717k)**
Total Adjustment – Group Accounts	**£101,149k**	**(£101,149k)**

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Joint Audit and Standards Committee is required to approve management's proposed treatment these items :

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Reason for not adjusting
Settlement to Warwickshire Police			
The settlement payment to Warwickshire is net of £270k 'being the sum that Warwickshire would, but for this Agreement, pay West Mercia for the extension period of the 2018 SACA until 8 April 2020'.			This amount is not material. The settlement has been accounted for as a single transaction in the 2018/19 financial statements.
Our view is that this £270k should be accounted for separately as income in the 2019/20 year, and not netted off the provision. The correction to this in the financial statements would be as follows:			
Dr Settlement to Warwickshire (Provision of Services)	270k		
Cr Long Term Provisions		(270k)	

Fees

We confirm below our fees charged for the audit to date and also confirm that there were no non-audit services charged in 2018/19.

Audit Fees

Our Audit Plan included a PSAA published scale fee for 2018/19 of £26,380 for the PCC and £14,438 for the Chief Constable. Our audit approach, including the risk assessment, continues as the year progresses and fees are reviewed and updated as necessary as our work progresses.

Update to our risk assessment – Additional work in respect of the audit code

The table below sets out the additional work which we have undertaken to complete the audit, along with the impact on the audit fee where possible. Please note that these proposed additional fees are estimates based on our best projection of work and will be subject to approval by PSAA in line with the Terms of Appointment.

Additional Audit Fees

Area of work	Timing	Comment	£
Assessing the impact of the McCloud Ruling (PCC and CC)	June – July 2019	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statement along with any audit reporting requirements. This included consultation with our own internal actuary in their capacity as an auditor expert.	1,500
Pensions – IAS 19 (PCC and CC)	June - July 2019	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.	1,500
PPE Valuation – work of experts (PCC only)	June - July 2019	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE Valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	1,500

Following completion of the 2018/19 audit, we will need to give consideration to further additional fees for work performed relating to the dissolution of the Strategic Alliance. This will be subject to approval by PSAA.

Total Audit Fees

	2017/18 Fee	2018/19 Scale Fee	Proposed final fee
PCC Audit	34,260	26,380	TBC
Chief Constable Audit	18,750	14,438	TBC
Total audit fees (excluding VAT)	**£53,010**	**£40,818**	**TBC**

Audit opinion

We anticipate we will provide the PCC with an unqualified audit report on the financial statements and a qualified VFM Conclusion

Independent auditor's report to the Police and Crime Commissioner for West Mercia

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Police and Crime Commissioner for West Mercia (the 'Police and Crime Commissioner') and its subsidiary the Chief Constable (the 'group') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement (CIES) for the Group, the Comprehensive Income and Expenditure Statement (CIES) for the PCC, the Movement in Reserves Statement (MIRS) for the Group, the Movement in Reserves Statement (MIRS) for the PCC, the Balance Sheets for the Group and the PCC, the Cash Flow Statements for the Group and the PCC and notes to the financial statements, including a summary of significant accounting policies, and include the police pension fund financial statements comprising the Police Pension Fund Account, and notes to the Police Pension Fund Account. The notes to the financial statements include the Statement of Accounting Policies on pages 24 to 38 and Notes to the Core Statements. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Police and Crime Commissioner as at 31 March 2019 and of the group's expenditure and income and the Police and Crime Commissioner's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Police and Crime Commissioner in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Treasurer to the Commissioner and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's and Police and Crime Commissioner's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's and Police and Crime Commissioner's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Treasurer to the Commissioner's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Treasurer to the Commissioner has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Police and Crime Commissioner's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the Treasurer to the Commissioner's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19 that the Police and Crime Commissioner's financial statements shall be prepared on a going concern basis, we considered the risks associated with the group's and Police and Crime Commissioner's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the group's and Police and Crime Commissioner's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Police and Crime Commissioner or group will continue in operation.

Other information

The Treasurer to the Commissioner is responsible for the other information. The other information comprises the information included in the Statement of Accounts and the Annual Governance Statement, other than the Police and Crime Commissioner and group financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and the Police and Crime Commissioner obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Audit opinion

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Police and Crime Commissioner gained through our work in relation to the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Police and Crime Commissioner under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Police and Crime Commissioner and the Treasurer to the Commissioner for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 39, the Police and Crime Commissioner is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. That officer is the Treasurer to the Commissioner. The Treasurer to the Commissioner is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Treasurer to the Commissioner determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Treasurer to the Commissioner is responsible for assessing the group's and the Police and Crime Commissioner's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the group or the Police and Crime Commissioner will no longer be provided.

The Police and Crime Commissioner is Those Charged with Governance. Those charged with governance are responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources

Qualified conclusion

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2017, except for the effects of the matters described in the basis for qualified opinion section of our report we are satisfied that, in all significant respects, the Police and Crime Commissioner put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Basis for qualified conclusion

Our review of the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources identified the following matters:

West Mercia Police and Warwickshire Police entered into a Strategic Alliance in 2012 with the aim of reducing the total operating cost for each Force. The partnership operated by each Force pooling their resources, including people and assets, as well as sharing costs in line with their respective net revenue expenditure. On 8 October 2018, West Mercia Police and Crime Commissioner and Chief Constable jointly served notice on their counterparts in Warwickshire to terminate the agreement with 12 months' notice.

Working with partners

The decision to terminate the Strategic Alliance was not expected by the Warwickshire Police and Crime Commissioner and Chief Constable, and there were no contingency plans in place to deal with the termination. After the notice was served, relationships between the respective Police and Crime Commissioners and the Chief Constables quickly deteriorated further, with the Home Office subsequently intervening to seek resolution of the dispute. These matters identify weaknesses in the Police and Crime Commissioner's arrangements for effective joint working with Warwickshire Police

Informed decision making

West Mercia Police produced a rationale for terminating the Strategic Alliance, which included a paper considering a number of options available to the Police and Crime Commissioner and Chief Constable. However, no documentation has been produced to support how these options were considered and how a preference was determined. The options appraisal also noted areas that required further consideration, including the costs and liabilities arising from the implementation of the exit strategy. No evidence has been produced to demonstrate that these areas were given further consideration prior to the notice being served. Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services produced a Police Effectiveness, Efficiency and Legitimacy report for West Mercia Police for 2018/19. This report stated that the "decision to terminate the alliance does not appear to have been based on a well-evidenced business case". These matters identify weaknesses in the Police and Crime Commissioner's arrangements for informed decision making in respect of the termination of the Strategic Alliance.

These matters are evidence of weaknesses in proper arrangements for:

- working with third parties effectively to deliver strategic priorities; and
- understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management including where relevant, business cases supporting significant investment decisions.

Responsibilities of the Police and Crime Commissioner

The Police and Crime Commissioner is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Audit opinion

Auditor's responsibilities for the review of the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Police and Crime Commissioner has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Police and Crime Commissioner had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Police and Crime Commissioner put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Police and Crime Commissioner has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Police and Crime Commissioner for West Mercia in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the Police and Crime Commissioner, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Police and Crime Commissioner those matters we are required to state to the Police and Crime Commissioner in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Police and Crime Commissioner as a body, for our audit work, for this report, or for the opinions we have formed.

Audit opinion

We anticipate we will provide the Chief Constable with an unqualified audit report on the financial statements and a qualified VFM Conclusion

Independent auditor's report to the Chief Constable for West Mercia

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Chief Constable for West Mercia (the 'Chief Constable') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies, and include the police pension fund financial statements comprising the Police Pension Fund Account, and notes to the Police Pension Fund Account. The notes to the financial statements include the Statement of Accounting Policies on pages 22 to 28 and Notes to the Core Statements. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Chief Constable as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Chief Constable in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Chief Financial Officer to the Chief Constable and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Chief Constable's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Chief Constable's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer to the Chief Constable's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer to the Chief Constable has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Chief Constable's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the Chief Financial Officer to the Chief Constable's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19 that the Chief Constable's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Chief Constable's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Chief Constable's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Chief Constable will continue in operation.

Other information

The Chief Financial Officer to the Chief Constable is responsible for the other information. The other information comprises the information included in the Statement of Accounts and the Annual Governance Statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Chief Constable obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are

Audit opinion

not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.
We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Chief Constable gained through our work in relation to the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Chief Constable under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Chief Constable and the Chief Financial Officer to the Chief Constable for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 29, the Chief Constable is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. That officer is the Chief Financial Officer to the Chief Constable. The Chief Financial Officer to the Chief Constable is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer to the Chief Constable determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, the Chief Financial Officer to the Chief Constable is responsible for assessing the Chief Constable's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Chief Constable will no longer be provided.
The Chief Constable is Those Charged with Governance. Those charged with governance are responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources

Qualified conclusion

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2017, except for the effects of the matters described in the basis for qualified opinion section of our report we are satisfied that, in all significant respects, the Chief Constable put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Basis for qualified conclusion

Our review of the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources identified the following matters:
West Mercia Police and Warwickshire Police entered into a Strategic Alliance in 2012 with the aim of reducing the total operating cost for each Force. The partnership operated by each Force pooling their resources, including people and assets, as well as sharing costs in line with their respective net revenue expenditure. On 8 October 2018, West Mercia Police and Crime Commissioner and Chief Constable jointly served notice on their counterparts in Warwickshire to terminate the Strategic Alliance with 12 months' notice.

Working with partners

The decision to terminate the Strategic Alliance was not expected by the Warwickshire Police and Crime Commissioner and Chief Constable and there were no contingency plans in place to deal with the termination. After the notice was served, relationships between the respective Police and Crime Commissioners and the Chief Constables quickly deteriorated further, with the Home Office subsequently intervening to seek resolution of the dispute. These matters identify weaknesses in the Chief Constable's arrangements for effective joint working with Warwickshire Police

Informed decision making

West Mercia Police produced a rationale for terminating the Strategic Alliance, which included a paper considering a number of options available to the Police and Crime Commissioner and Chief Constable. However, no documentation has been produced to support how these options were considered and how a preference was determined. The options appraisal also noted areas that required further consideration, including the costs and liabilities arising from the implementation of the exit strategy. No evidence has been produced to demonstrate that these areas were given further consideration prior to the notice being served. Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services produced a Police Effectiveness, Efficiency and Legitimacy report for West Mercia Police for 2018/19. This report stated that the "decision to terminate the alliance does not appear to have been based on a well-evidenced business case". These matters identify weaknesses in the Chief Constable's arrangements for informed decision making in respect of the termination of the Strategic Alliance.

These matters are evidence of weaknesses in proper arrangements for:

- working with third parties effectively to deliver strategic priorities; and
- understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management including where relevant, business cases supporting significant investment decisions.

Audit opinion

Responsibilities of the Chief Constable
The Chief Constable is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources
We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Chief Constable has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.
We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Chief Constable had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Chief Constable put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.
We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Chief Constable has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate
We certify that we have completed the audit of the financial statements of the Chief Constable for West Mercia in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report
This report is made solely to the Chief Constable, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Chief Constable those matters we are required to state to the Chief Constable in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Chief Constable as a body, for our audit work, for this report, or for the opinions we have formed.

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