



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

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Year ended 31 March 2020

November 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's and Chief Constable's financial statements for the year ended 31 March 2020 for the PCC and Chief Constable.

<b>Covid-19</b>	<p>The outbreak of the Covid-19 coronavirus pandemic has had an impact on the normal operations of the group, with front-line challenges, staff sickness, the move to more remote ways of working, and the additional challenges of delivering services under changing government guidelines.</p> <p>Local Authorities (including police bodies) are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued our audit plan in April 2020. In that plan we reported an additional financial statement risk in respect of Covid-19 and highlighted the impact on our VfM approach. Further detail is set out on page 6.</p> <p>Restrictions for non-essential travel have meant that some members of the group's finance team, as well as our audit staff, have had to work remotely throughout the audit visit. We visited the finance team in person in late October in order to obtain required assurances that could not be gained remotely (eg over the data being provided to the audit team). In addition, alternative procedures (such as the use of photographic evidence for physical verification of assets) have been used where necessary.</p> <p>Management published draft financial statements for audit on 11 August 2020, in advance of the revised Covid-19 timetables.</p>
<b>Financial Statements</b>	<p>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:</p> <ul style="list-style-type: none"> <li>• give a true and fair view of the financial position of the entity and the entity's income and expenditure for the year; and</li> <li>• 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.</li> </ul> <p>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.</p>	<p>Our audit work was completed remotely from August. Our findings are summarised on pages 5 to 16. We have identified adjustments to the financial statements that have resulted in adjustments to the Net Pensions Liability, and related transactions in the Comprehensive Income and Expenditure Statement and other primary statements. Audit adjustments are detailed in Appendix B. We have also raised recommendations for management as a result of our audit work in Appendix A.</p> <p>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 group 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 outstanding matters detailed on page 5.</p> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisations.</p> <p>Our anticipated audit opinions will be unqualified, with the PCC's including an Emphasis of Matter paragraph highlighting the material uncertainties in the valuations of land and buildings.</p>

# Headlines

## 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 both West Mercia PCC and West Mercia Chief Constable had proper arrangements to secure economy, efficiency and effectiveness in their use of resources for the 2019/20 financial year.

We therefore anticipate issuing unqualified value for money conclusions for each of the PCC and Chief Constable, as detailed in Appendices E and F. Our findings are summarised on pages 17 to 19.

## 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 for either entity.

We have completed the majority of work under the Code, and intend to issue our completion certificates at the same time as our audit reports.

## Acknowledgements

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

# 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 the PCC and Chief Constable 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 shared with the PCC and Chief Constable.

As auditors, 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 the PCC and Chief Constable. The audit of the financial statements does not relieve management or the PCC and Chief Constable of their responsibilities for the preparation of the financial statements.

## Audit approach

Our audit approach was based on a thorough understanding of the group'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 had to alter our audit plan, as communicated to you in April 2020, to reflect our response to the Covid-19 pandemic, as we identified an additional significant risk in relation to Covid-19 for 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 levels remain the same as reported in our audit plan. We have determined our materiality using the PCC's expenditure level as a benchmark, as the lowest of the expenditure levels in the group.

	Group Amount	Chief Constable Amount	PCC Amount
Materiality for the financial statements	£4,900k	£4,650k	£4,600k
Performance materiality			£3,220k
Performance materiality for specific areas, due to staff turnover after the strategic alliance and Covid-19			£2,990k
Trivial matters			£230k
Materiality for disclosures relating to remuneration of senior officers, due to their sensitive nature	1.9% of disclosure balances		

## Conclusion

We have substantially completed our audits of your financial statements and subject to outstanding queries being resolved, we anticipate issuing unqualified audit opinions, as detailed in the appendices to this report. These outstanding items include:

- completion of testing of journal transactions highlighted as 'unusual' through our work;
- completion of detailed testing of property valuations;
- finalisation of other areas of sample testing, and agreement of disclosure-only elements of the financial statements;
- completion of our review of management's going concern assessment;
- final quality reviews by senior members of the audit team;
- receipt of the signed management representation letter; and
- review of the final, approved, set of financial statements.

# Significant findings – audit risks

Risks identified in our Audit Plan	Relates to	Auditor Commentary
<p><b>Covid- 19</b></p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expected that current circumstances would have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:</p> <ul style="list-style-type: none"> <li>• Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation;</li> <li>• Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates;</li> <li>• Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and</li> <li>• Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS 1, particularly in relation to material uncertainties.</li> </ul> <p>We therefore identified the global outbreak of Covid-19 as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>PCC and Chief Constable (group)</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• worked with management to understand the implications the response to the Covid-19 pandemic has had on the organisations' ability to prepare the financial statements and update financial forecasts, and assessed the implications for our materiality calculations;</li> <li>• liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose;</li> <li>• evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;</li> <li>• evaluated whether sufficient audit evidence could be obtained in the absence of physical verification of assets through remote technology;</li> <li>• evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances; and</li> <li>• evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessments.</li> </ul> <p>The PCC's valuer has prepared their valuations as at 31 March 2020. In their report, they have confirmed that as a result of the Covid-19 pandemic and the subsequent lockdown and impact on market activity, less certainty – and a higher degree of caution – should be attached to their valuations than would normally be the case. Their valuations are reported on the basis of 'material valuation uncertainty'. We have requested that the PCC and group reflect this uncertainty in Note 4 to the financial statements. We will refer to these material valuation uncertainties in our auditor's report as an Emphasis of Matter.</p> <p>For a small number of tasks, we are required to observe finance staff completing processes or actions in order to gain assurance over the information that they then provide to us. A member of the audit team completed these observations in-person during late October, with no issues noted.</p> <p>Other work to address the points above is substantially complete, and we have not identified any other issues or concerns to report.</p>

# Significant findings – audit risks

Risks identified in our Audit Plan	Relates to	Auditor Commentary
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	N/A	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• There is little incentive to manipulate revenue recognition.</li> <li>• Opportunities to manipulate revenue recognition are very limited.</li> <li>• The culture and ethical frameworks of local authorities, including the PCC and Chief Constable, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p><b>Therefore we do not consider this to be a significant risk for West Mercia PCC or West Mercia Chief Constable.</b></p> <p>We have however:</p> <ul style="list-style-type: none"> <li>• evaluated the group's accounting policies for recognition of revenues for appropriateness;</li> <li>• performed substantive testing on material revenue streams; and</li> <li>• reviewed unusual significant transactions.</li> </ul> <p>Our audit work has not identified any issues in respect of improper revenue recognition.</p>
<p><b>Management override of controls</b></p> <p>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.</p> <p>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.</p>	PCC and Chief Constable (group)	<p>We have:</p> <ul style="list-style-type: none"> <li>• evaluated the design effectiveness of management controls over journals;</li> <li>• analysed the journals listing and determine the criteria for selecting high risk unusual journals;</li> <li>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;</li> <li>• gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and</li> <li>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul> <p>At the time of writing this report, our testing of detailed journal entries highlighted as unusual is ongoing. We have not identified any issues in respect of management override of controls from the work performed to date.</p>

# Significant findings – audit risks

Risks identified in our Audit Plan	Relates to	Auditor Commentary
<p><b>Valuation of land and buildings (Rolling revaluation)</b></p> <p>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.</p> <p>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.</p>	<p>PCC (and group)</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert;</li> <li>communicated with the valuer to confirm the basis on which the valuation was carried out;</li> <li>challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;</li> <li>tested, on a sample basis, revaluations made during the year to see if they had been input correctly into the PCC's asset register and financial statements; and</li> <li>evaluated the assumptions made by management for those assets not revalued at 31 March 2020 and how management has satisfied themselves that the carrying value of these assets in the balance sheet is not materially different to their current value at year end.</li> </ul> <p>At the time of writing this report, our detailed work in relation to the PCC's property valuations is ongoing.</p> <p>We have requested that disclosure of the material valuation uncertainties arising from the global pandemic, and referred to in the valuer's report, be added to the financial statements. We will refer to this disclosure in an Emphasis of Matter paragraph in our audit report.</p> <p>We have not identified any issues in respect of valuations of the PCC's property at the time of writing this report.</p>




# Significant findings – audit risks

Risks identified in our Audit Plan	Relates to	Auditor Commentary
<p><b>Valuation of the pension fund net liability</b></p> <p>The group's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£1,166 million in the group's draft balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Chief Constable's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	Chief Constable (and group)	<p>We have:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assessed the competence, capabilities and objectivity of the actuary who carried out the group's pension fund valuations;</li> <li>• assessed the accuracy and completeness of the information provided by the group to the actuary to estimate the liability;</li> <li>• 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</li> <li>• 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.</li> </ul> <p>Following the ruling during 2018/19 relating to age discrimination (McCloud), draft amendments to the statutory underpin were issued for consultation in July 2020. The Chief Constable requested that the actuaries give consideration to the potential changes to the related liabilities following the issue of this consultation document. This resulted in a reduction of £26,030k in the pension liability disclosed in the Chief Constable's and group's financial statements.</p> <p>The financial statements have been amended for these items.</p> <p>Our audit work in this area has not identified any other issues in respect of valuation of the Chief Constable's and group's net pension liabilities at the time of writing this report, but this work is ongoing.</p>

# Significant findings – audit risks

Risks identified in our Audit Plan	Relates to	Auditor Commentary
<p><b>Transfer of financial information to the updated general ledger</b></p> <p>In February 2020, the group upgraded the general ledger system. When implementing a new significant accounting system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a risk over the completeness and accuracy of the data transfer from the previous ledger system.</p> <p>We therefore identified the completeness and accuracy of the transfer of financial information to the new general ledger system as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>PCC and Chief Constable (group)</p>	<p>In our audit plan, we stated that we would:</p> <ul style="list-style-type: none"> <li>• review the group's arrangements and controls over the transfer of data from the old system to the new system, and the controls over the completeness and accuracy of data transferred;</li> <li>• map the closing balances from the old ledger system to the opening balance position in the new ledger system to assess accuracy and completeness of the financial information; and</li> <li>• complete an information technology (IT) environment review to document and evaluate the IT controls operating within the new general ledger system.</li> </ul> <p>We have completed a review of the arrangements and controls that were in operation in relation to the transfer of data from the old system to the new system, and have concluded that these were designed effectively.</p> <p>Due to delays in receiving the necessary information, we were unable to complete our planned work, agreeing the closing balances from the old ledger system to the opening balance position in the new ledger system, as management were unable to provide us with the necessary reports.</p> <p>Instead, we have compared full transaction listings run monthly from the old system to the equivalent listings run from the updated system at the time of our audit. We have given specific consideration to the transactions posted in the first week of February, as the new system went live on 10 February 2020. We have not identified any issues as a result of this work.</p> <p>We requested information from management to enable us to complete an updated review of the IT environment, and observed the operation of key controls in-person during late October.</p> <p>No issues have been noted in relation to the transfer of the data.</p>

# Significant findings – key judgements and estimates

	Relates to	Summary of management's policy	Audit Comments	Assessment
<b>Land and Buildings</b>  Draft £56.4m Final £56.4m (TBC)	PCC (and group)	<p>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.</p> <p>The PCC has engaged PPL to complete the valuation of its properties. Approximately 62% of the PCC's Land and Building assets were subject to a full, formal valuation process at the balance sheet date. The total year end valuation of land and buildings was £56.4m, a net increase of £0.6m from 2018/19 (£55.8m).</p> <p>In line with RICS guidance, the PCC's valuer disclosed a material uncertainty in the valuation of the PCC's land and buildings at 31 March 2020 as a result of Covid-19. We have requested that disclosure of this uncertainty be added to the financial statements.</p> <p>Management have considered the year end value of non-valued properties, to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties' value.</p>	<ul style="list-style-type: none"> <li>• We have not noted any issues with the completeness and accuracy of the underlying information used to determine the estimate.</li> <li>• We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the PCC.</li> <li>• There have been no changes to the valuation method this year.</li> <li>• 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 2019/20 valuations.</li> <li>• Disclosure of the estimate in the financial statements is considered adequate.</li> </ul> <p>At the time of writing this report, our detailed testing of the valuation of assets as at 31 March 2020 is ongoing. We have no concerns to raise at this time.</p>	 <b>Green</b> (TBC)

## 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																								
<b>Net pension liability</b> <b>Police Pension Scheme</b>  Draft £2,442.7m Final £2,416.7m	Chief Constable (and group)	<p>The Chief Constable and group's net pension liability in relation to the Police Pension Scheme at 31 March 2020 was £2,416.7m (PY £2,583.7m).</p> <p>The Chief Constable uses GAD to provide actuarial valuations of the liabilities derived from these schemes (there are no assets to value), utilising key assumptions such as life expectancy, discount rates and salary growth. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p> <p>Following the ruling during 2018/19 relating to age discrimination (McCloud), draft amendments to the statutory underpin were issued for consultation in July 2020. Management requested that GAD give consideration to the potential changes to the related liabilities following the issue of this consultation document. This resulted in a reduction of £26,030k in the pension liability disclosed in the Chief Constable's and group's financial statements.</p>	<ul style="list-style-type: none"><li>We have no concerns over the competence, capabilities and objectivity of the actuary used by the group.</li><li>We have used the work of Pw C, as auditors expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the Police Pension Fund valuation:</li></ul> <table><tr><th>Assumption</th><th>GAD</th><th>PwC's expected range</th><th>Assessment</th></tr><tr><td>Discount rate</td><td>2.25%</td><td>2.25%</td><td>●</td></tr><tr><td>Pension increase rate</td><td>2.00%</td><td>2.00%</td><td>●</td></tr><tr><td>Salary growth</td><td>4.00%</td><td>4.00%</td><td>●</td></tr><tr><td>Life expectancy – Males currently aged 45 / 65</td><td>45: 23.6 65: 21.9</td><td>45: 23.6 65: 21.9</td><td>●</td></tr><tr><td>Life expectancy – Females currently aged 45 / 65</td><td>45: 25.2 65: 23.6</td><td>45: 25.2 65: 23.6</td><td>●</td></tr></table> <ul style="list-style-type: none"><li>No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate.</li><li>There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above.</li><li>A material adjustment has been made to the financial statements as a result of changes in the calculation of the liabilities relating to McCloud.</li><li>Disclosure of the estimate in the draft financial statements was considered adequate. Additional narrative has been added to the financial statements to explain the approach taken to the estimate of the liabilities in relation to McCloud.</li></ul>	Assumption	GAD	PwC's expected range	Assessment	Discount rate	2.25%	2.25%	●	Pension increase rate	2.00%	2.00%	●	Salary growth	4.00%	4.00%	●	Life expectancy – Males currently aged 45 / 65	45: 23.6 65: 21.9	45: 23.6 65: 21.9	●	Life expectancy – Females currently aged 45 / 65	45: 25.2 65: 23.6	45: 25.2 65: 23.6	●	<div>●</div> <p><b>Green</b> (after adjustments in relation to McCloud)</p>
Assumption	GAD	PwC's expected range	Assessment																									
Discount rate	2.25%	2.25%	●																									
Pension increase rate	2.00%	2.00%	●																									
Salary growth	4.00%	4.00%	●																									
Life expectancy – Males currently aged 45 / 65	45: 23.6 65: 21.9	45: 23.6 65: 21.9	●																									
Life expectancy – Females currently aged 45 / 65	45: 25.2 65: 23.6	45: 25.2 65: 23.6	●																									

## 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																								
<b>Net pension liability LGPS</b>  Draft £187.5m Final £187.5m	Group	<p>The Chief Constable and group's net pension liability in relation to the Worcestershire Local Government Pension Scheme at 31 March 2020 was £187.5m (PY £153.8m).</p> <p>The Chief Constable uses Mercer to provide actuarial valuations of the assets and liabilities derived from these schemes. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns.</p> <p>Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p> <p>Following the ruling during 2018/19 relating to age discrimination (McCloud), draft amendments to the statutory underpin were issued for consultation in July 2020.</p> <p>Management requested that Mercer give consideration to the potential changes to the related liabilities following the issue of this consultation document. This has not resulted in an amendment to the pension liability disclosed in the Chief Constable's and group's financial statements.</p>	<ul style="list-style-type: none"><li>We have no concerns over the competence, capabilities and objectivity of the actuary used by the group.</li><li>We have used the work of PwC, as auditors expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the LGPS valuation:</li></ul> <table><tr><th>Assumption</th><th>Mercer</th><th>PwC's expected range</th><th>Assessment</th></tr><tr><td>Discount rate</td><td>2.40%</td><td>2.40% - 2.30%</td><td>●</td></tr><tr><td>Pension increase rate</td><td>2.10%</td><td>2.10%</td><td>●</td></tr><tr><td>Salary growth</td><td>3.60%</td><td>3.60%</td><td>●</td></tr><tr><td>Life expectancy – Males currently aged 45 / 65</td><td>45: 24.2 65: 22.6</td><td>22.5 – 24.7 20.9 – 23.2</td><td>●</td></tr><tr><td>Life expectancy – Females currently aged 45 / 65</td><td>45: 27.0 65: 25.0</td><td>25.9 – 27.7 24.0 – 25.8</td><td>●</td></tr></table> <ul style="list-style-type: none"><li>No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate.</li><li>There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above.</li><li>An adjustment has been made to the financial statements as a result of changes in the calculation of the liabilities relating to McCloud.</li><li>Disclosure of the estimate in the draft financial statements was considered adequate.</li><li>Audit procedures identified that the draft financial statements had been prepared using an outdated version of the LGPS actuarial report, and that the pensions liability and the pensions reserve were inconsistent with the figures included in the disclosure note in the draft financial statements.</li></ul>	Assumption	Mercer	PwC's expected range	Assessment	Discount rate	2.40%	2.40% - 2.30%	●	Pension increase rate	2.10%	2.10%	●	Salary growth	3.60%	3.60%	●	Life expectancy – Males currently aged 45 / 65	45: 24.2 65: 22.6	22.5 – 24.7 20.9 – 23.2	●	Life expectancy – Females currently aged 45 / 65	45: 27.0 65: 25.0	25.9 – 27.7 24.0 – 25.8	●	<div>●</div> <div>Green</div>
Assumption	Mercer	PwC's expected range	Assessment																									
Discount rate	2.40%	2.40% - 2.30%	●																									
Pension increase rate	2.10%	2.10%	●																									
Salary growth	3.60%	3.60%	●																									
Life expectancy – Males currently aged 45 / 65	45: 24.2 65: 22.6	22.5 – 24.7 20.9 – 23.2	●																									
Life expectancy – Females currently aged 45 / 65	45: 27.0 65: 25.0	25.9 – 27.7 24.0 – 25.8	●																									

## 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

# Going concern

## 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).

## Going concern material uncertainty disclosures

It has been a challenging year due to the Covid-19 pandemic and the impact of this on the normal operations of the PCC and Chief Constable, with front-line challenges, staff sickness, and the additional challenges of maintaining services under changes to government guidelines. Both the PCC and Chief Constable are facing significant financial challenges, with the group reporting a deficit position for 2019/20.

Management have undertaken an analysis of the potential financial implications of Covid-19. It may take a number of years before the group can fund its gross service expenditure without the use of its reserves. The group will therefore require further use of its financial reserves to pay its expenses in 2020/21. Given the sensitive nature of potential disclosures, we have identified this as an area of focus in our audit.

## Going concern commentary – PCC and Chief Constable

### Management's assessment process

### Auditor commentary

Management have undertaken their own assessment of going concern, taking into account Paragraph 2.1.2.9 of the Code of Practice on Local Authority Accounting, which states that “*An authority's financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future*”.

Consideration of the potential impact of Covid-19 on income levels and cash flow forecasts over the next few years is ongoing, and is being discussed with the PCC and Chief Constable as the picture evolves. This assessment considers the 2020/21 financial year, as well as the period of the MTFP (to 2022/23).

We consider that the process being undertaken is appropriate, and arrangements are adequate. This process is being led by the respective s151 officers (the Head of Commercial Services for the Chief Constable and the Treasurer to the PCC).

### Work performed

### Auditor commentary

At the time of writing this report, our audit work is ongoing. Work to date has not identified any material uncertainties in relation to going concern. Disclosures in the financial statements are considered adequate.

### Concluding comments

### Auditor commentary

We anticipate issuing an unmodified audit opinion in relation to going concern.

# 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 the PCC and Chief Constable.

Issue	Commentary
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.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed, although our audit work in this area is not yet complete.
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	A letter of representation will be requested from each of the PCC and Chief Constable, with the PCC's including specific representations in respect of the Group. These letters are included in the committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Chief Constable's and PCC's counterparties. This permission was granted and the requests were sent. All of these requests have been returned with positive confirmation.
Disclosures	Our review found no material omissions in the financial statements.
Audit evidence and explanations, and significant difficulties	All information and explanations requested from management were provided.  There were delays in the preparation of the financial statements as a result of Covid-19, however we have been in regular contact with the finance team since March, who ensured that we were informed of any changes in the expected timetables as they arose. Draft financial statements were provided for audit during August 2020.

# Other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statements and Narrative Reports), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Detailed work is not required as the PCC and Chief Constable do not exceed the NAO's threshold of £500m.</p>
Certification of the closure of the audit	<p>We expect to certify the closure of the 2019/20 audit of West Mercia PCC and West Mercia Chief Constable in the audit reports.</p>



# Value for Money

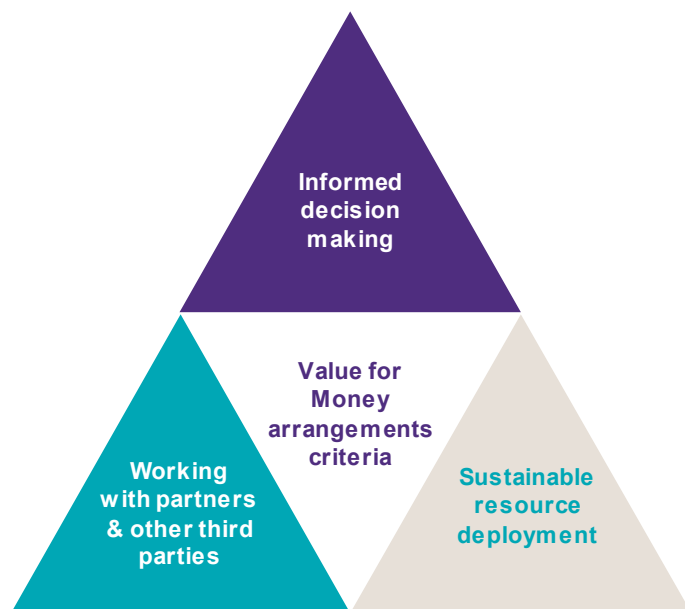
## Background to our VFM approach

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 April 2020. 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 between April and August 2020 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. At the time of writing our Audit Plan, the 2018/19 financial statements audit was incomplete and our initial risk assessment was ongoing. We have since communicated the risks identified, as set out on the next page, to management.

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.

# Value for Money

## Significant risks identified



### The dissolution of the strategic alliance

Warwickshire Police and West Mercia 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 will be in place post October 2019.

On 7 October 2019, the Home Office stepped in to extend the alliance agreement for a period of 6 months in order to provide sufficient time to agree arrangements to transition out of the alliance.

We will review the work performed by management after notice being issued, considering the options available to the force going forward, and the mitigation of any risks arising.

We will gain an understanding of the supporting review and governance arrangements throughout the year, and consider their appropriateness.



### Financial sustainability and resilience

The group's medium term financial plan includes the use of a significant proportion of available reserves. In March 2020 an agreement was reached with Warwickshire for a financial settlement of £10.5m. This placed additional strain on the group's financial planning.

We will consider management's approach to setting the 2020/21 budget and the Medium Term Financial Plan, along with any changes that have been made to this planning as a result of the settlement agreement being reached.

## Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the PCC's 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's and Chief Constable's arrangements. Our main considerations in arriving at our conclusion are set out on the following page.

## Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that both the PCC and Chief Constable had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our audit reports, which confirm this, can be found at Appendix D.

## Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

## Significant matters discussed with management

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 the PCC and Chief Constable.

## Key findings – PCC and Chief Constable

We set out below our key findings against the significant risk we identified through our initial risk assessment and confirm that no further risks were identified through our ongoing review of documents.

Significant risk	Work performed & Findings
<p><b>The dissolution of the Strategic Alliance</b></p> <p>Warwickshire Police and West Mercia 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 would be in place post October 2019.</p> <p>On 7 October 2019, the Home Office stepped in to extend the alliance agreement for a period of 6 months in order to provide sufficient time to agree arrangements to transition out of the alliance.</p>	<p>Warwickshire Police and Crime Commissioner and Chief Constable have stated that the decision to terminate the Strategic Alliance was not one they anticipated, and consequently there were no plans initially in place to deal with the termination. Relationships between the respective Police and Crime Commissioners and Chief Constables quickly deteriorated further after the serving of notice. In addition, we received no documentation, such as meeting minutes, to support the options consideration undertaken and how a preference was determined. This was supported by the HMICFRS's Police Effectiveness, Efficiency and Legitimacy report for 2018/19 which stated that the "decision to terminate the alliance does not appear to have been based on a well-evidenced business case".</p> <p>In 2018/19 we concluded that these matters were evidence of weaknesses in proper arrangements for working with third parties effectively to deliver strategic priorities, and issued a qualified 'except for' conclusion in respect of both the PCC's and the Chief Constable's arrangements during 2018/19.</p> <p>At the beginning of the 2019/20 financial year, negotiations were ongoing over potential joint working after the end of the Strategic Alliance. Formal consideration was given to detailed business cases for potential areas of collaboration with Warwickshire, but ultimately these were not agreed.</p> <p>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.</p> <p>On 7 October 2019, the Home Secretary wrote to both West Mercia and Warwickshire Police and Crime Commissioners and Chief Constables. This letter instructed both sides to continue the existing arrangements for six months, and notified 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.</p> <p>On 30 March 2020, following the findings of this independent team, both Police and Crime Commissioners and Chief Constables agreed a settlement of £10.77m from West Mercia to Warwickshire to cover the costs of separating the services that the two forces had previously shared under the alliance agreement. Four new areas of collaboration have been agreed to deliver four key services together from 1 April 2020, to ensure smooth transition after the Strategic Alliance, which formally ended on that date.</p> <p>In addition, as part of our work this year, management have stated that they have demonstrated to HMICFRS that they consider the recommendations raised in the HMICFRS report of September 2019 have been addressed.</p>

## Conclusion

Although we consider that there continued to be issues in the arrangements surrounding the separation process during the first half of the 2019/20 year, sufficient progress was made in the latter half (after the Home Office intervention) that the Strategic Alliance ended on 1 April 2020 with no impact on service delivery.

**We have concluded that the risk was sufficiently mitigated by both the PCC and the Chief Constable. We propose to issue an unqualified conclusion in respect of each of the PCC's and the Chief Constable's arrangements during 2019/20.**

## Significant risk

### Financial sustainability and resilience

The group's medium term financial plan includes the use of a significant proportion of available reserves. In March 2020 an agreement was reached with Warwickshire for a financial settlement of £10.5m. This placed additional strain on the group's financial planning.

## Work performed & Findings

The 2020/21 budget and MTFP were presented to the Police and Crime Panel for discussion and challenge on 5 February 2020 and approved by the PCC on 12 February 2020, along with the change to the precept for the 2020/21 year. We have reviewed these documents, along with subsequent financial information as it became available.

Reviewing the reserves forecasts that are included in the draft financial statements, which incorporate the effects of the settlement agreement with Warwickshire now that it has been confirmed, the group expect usable reserves of £11.5m at March 2022. There is therefore a risk that during the following financial year (2022/23), the group's available reserves will drop below their current assessment of the minimum required level (£10.5m at February 2020).

Management assert that the separation from Warwickshire and the Strategic Alliance will enable them to make significant operational savings going forward, and they expect to recover the costs of the settlement payment within the 18 month period following the separation. Their expectation is that pressing ahead with recommended reforms to police support services will realise annual efficiencies for West Mercia of £8m.

We therefore consider that there is sufficient time for measures to be enacted to develop plans for additional cost savings to maintain a higher level of reserves than is currently forecast, however we recommend that this be treated as a priority.

It is evident from the differences between planned reserve levels and reserve usage in management's prepared MTFP (at February 2020) and the draft financial statements (at March 2020) that the group's forward planning is being regularly reviewed and reassessed, as we would expect at a time of such uncertainty.

In a report to the Police and Crime Panel in September 2020, the PCC confirmed that the group were on track to deliver the planned savings for the 2020/21 year. In addition, early financial monitoring for the year shows that the majority of the £5.4m of savings plans were on track for delivery at the end of May 2020. At that time, only £0.2m had been deemed to be non-deliverable, with £2.7m marked as being in need of attention. These are early indications that the planned levels of spend and savings in the MTFP were reasonable, and are being actively managed.

## Conclusion

West Mercia PCC and Chief Constable are regularly reviewing and reassessing their forward planning and are hopeful that savings can be made after the dissolution of the alliance. Early reporting demonstrates that the planned savings for 2020/21 are mostly achievable, and the impact of the settlement to Warwickshire has now been incorporated into the reserve levels with no significant negative impacts.

There is a risk that reserve levels will reduce below management's assessed minimum requirement during the 2022/23 year, but sufficient time remains to address this risk, and develop plans for additional cost savings to be achieved.

**We have concluded that the risk was sufficiently mitigated by both the PCC and the Chief Constable. We propose to issue an unqualified conclusion in respect of each of the PCC's and the Chief Constable's arrangements during 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

## 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.

# Action plan

## Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

We have identified recommendations for the PCC and Chief Constable 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 2020/21 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	Relevant to
● (Medium)	<b>Financial sustainability</b>  As noted in our VFM work, we consider that there is a risk that the group's available reserves will drop below management's current assessment of the minimum required level during the 2022/23 financial year.  This minimum required level was determined to be £10.5m in February 2020.	Management should proactively develop plans for additional cost savings to be achieved, in order to address this risk. We consider that there is sufficient time for this work to be done, but this should be treated as a priority.  <b>Management response</b>  This work is being undertaken as part of the 2021/22 budget setting process.	All
● (Medium)	<b>Asset registers</b>  Our audit work has identified that the PCC does not hold a register of all of its Plant, Furniture & Equipment assets.  Although we are satisfied that this does not give rise to a risk of material misstatement in the financial statements, we consider this a fundamental gap in management's record keeping.  There is a risk that there are assets in the financial statements that no longer belong to the PCC, or that useful economic lives assigned to these assets are not appropriate, but management do not have the information available to assess this.	Management should look to compile such a register so that appropriate checks can be performed.  <b>Management response</b>  Inventories are held by the relevant departments and it would be inefficient to replicate this detail centrally in the finance systems. These arrangements will be reviewed when the future arrangements for Estates services are determined and implemented and as the shared services with Warwickshire Police come to an end.	PCC (and group)

# Audit Adjustments – Chief Constable

We are required to report all non trivial misstatements to the PCC and Chief Constable, 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 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000
<b>Actuarial Valuations</b>		
Following the ruling during 2018/19 relating to age discrimination (McCloud), draft amendments to the statutory underpin were issued for consultation in July 2020. The Chief Constable requested that the actuaries give consideration to the potential changes to the related liabilities following the issue of this consultation document. This resulted in a reduction of £26,030k in the pension liability disclosed in the Chief Constable's and group's financial statements.		
The adjustment is as follows:		
Dr Gross Pension Liability		26,030
Cr Past Service Costs (Cost of Services)	(26,030)	

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. Those Charged with Governance are required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
<b>ROCU accrued expenditure</b>			
The finance team have informed us that the accrued expenditure in relation to the Regional Organised Crime Unit is overstated by a non-trivial amount, due to late notification of a change to the outturn. Management have chosen not to amend for this, as the difference is not material to the accounts.	(298)	298	Adjustment is not material to the financial statements

# Audit Adjustments – PCC

We are required to report all non trivial misstatements to the PCC and Chief Constable, 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 for the year ending 31 March 2020. In addition to adjustments in the PCC's position, adjustments in the Chief Constable's financial statements will also impact on the group position in the PCC's financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000
There are no adjustments to the PCC's single-entity financial statements		
<b>Total Adjustment</b>	<b>£nil</b>	<b>£nil</b>
<b>Total Adjustment – Group Accounts (PCC and Chief Constable)</b>	<b>(26,030k)</b>	<b>26,030k</b>

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. Those Charged with Governance are required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Reason for not adjusting
There are no adjustments to the PCC's single-entity financial statements			
<b>Total Adjustment</b>	<b>£nil</b>	<b>£nil</b>	<b>N/a</b>
<b>Total Adjustment – Group Accounts (PCC and Chief Constable)</b>	<b>(£298k)</b>	<b>£298k</b>	<b>See previous page</b>



# Audit Adjustments – Chief Constable & PCC

## 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 Reference (PCC / CC)	Detail	Adjustment agreed
Estimation Uncertainties (Note 4 / 4)	We have requested that disclosure of the material valuation uncertainties arising from the global pandemic, and referred to in the valuer's report, be added to the financial statements. We will refer to this disclosure in an Emphasis of Matter paragraph in our audit report	✓
Various	A number of other minor changes have been made to disclosure notes and accounting policies throughout the financial statements to improve accuracy, clarity and user understanding.	✓

# Fees

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

Audit Fees	Proposed fee	Final fee
PCC Audit	31,245	TBC
Chief Constable Audit	17,073	TBC
<b>Total audit fees (excluding VAT)</b>	<b>£48,318</b>	<b>£TBC</b>

The fees above reconcile to the financial statements as follows:

- **Fees disclosed per financial statements**    **£40,818**                      **(PSAA Scale Fee)**
- Additional fees proposed per Audit Plan            £7,500
- **Total fees per above**                                      **£48,318**

We will need to give consideration to further additional fees for work performed relating to the group's ledger transfer, the impact of Covid-19 and other areas once the audit is complete. We will initially discuss this with the CFOs.

Note that at the time of writing this report, the additional audit fees for 2019/20 (TBC, but £7,500 initially proposed in Audit Plan) are not yet agreed. All fee variations are subject to approval by PSAA in line with the Terms of Appointment.

# Audit opinion

## We anticipate we will provide the PCC with an unqualified audit report

### 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 2020 which comprise the Comprehensive Income and Expenditure Statement for the Group, the Comprehensive Income and Expenditure Statement for the PCC, the Movement in Reserves Statement for the Group, the Movement in Reserves Statement for the PCC, the Balance Sheets for the Group and the PCC, the Cash Flow Statements for the Group and the PCC, and the notes to the financial statements, including the summary of significant accounting policies on pages 25 to 40, and include the police pension fund financial statements comprising the Police Pension Fund Account and the Notes to the Police Pension Fund Account. 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 2019/20.

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 2020 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 properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; 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 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 Police and Crime Commissioner and group'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 Police and Crime Commissioner and group'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's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Treasurer 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'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 2019/20 that the Police and Crime Commissioner's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Police and Crime Commissioner's and group's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Police and Crime Commissioner's and group'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.

##### Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings

[Wording TBC]

##### Other information

The Treasurer 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 Edition' 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.

##### 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.

# Audit opinion

- 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 for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 41, 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. The Treasurer 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 2019/20, for being satisfied that they give a true and fair view and for such internal control as the Treasurer 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 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](http://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

### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that 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 2020.

### 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.

## 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 April 2020, 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 2020.

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

### Independent auditor's report to the Chief Constable of West Mercia Police

#### Report on the Audit of the Financial Statements

##### Opinion

We have audited the financial statements of the Chief Constable of West Mercia Police (the 'Chief Constable') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and the notes to the financial statements, including the summary of significant accounting policies on pages 22 to 28, and include the police pension fund financial statements comprising the Police Pension Fund Account and the Notes to the Police Pension Fund Account. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Chief Constable as at 31 March 2020 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAAC code of practice on local authority accounting in the United Kingdom 2019/20; 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 Head of Commercial Services 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 Head of Commercial Services' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Commercial Services 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 Head of Commercial Services' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAAC code of practice on local authority accounting in the United Kingdom 2019/20 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 Head of Commercial Services 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 Edition' 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.

##### 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.

# Audit opinion

## Responsibilities of the Chief Constable and the Head of Commercial Services 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 Head of Commercial Services. The Head of Commercial Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practice as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Head of Commercial Services 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 Head of Commercial Services 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](http://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

### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that 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 2020.

### 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 April 2020, 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 focus 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 2020.

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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