

West Mercia Police Joint Audit Plan

Year ending 31 March 2021

Police and Crime Commissioner for
West Mercia and Group
Chief Constable for West Mercia
June 2021



Contents



Your key Grant Thornton team members are:

Jackson Murray

Key Audit Partner

T 0117 305 7859

E Jackson.Murray@uk.gt.com

Andy Reid

Audit Manager

T 0121 232 5280

E Andy.S.Reid@uk.gt.com

Nikita Rai

Audit In-Charge

T 0121 232 5143

E Nikita.K.Rai@uk.gt.com

Section	Page	
Key matters	3	The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Police and Crime Commissioner and Chief Constable or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.
Introduction and headlines	4	
Group audit scope and risk assessment	5	
Significant risks identified	6	
Accounting estimates and related disclosures	9	
Other matters	12	
Materiality	13	
Value for Money Arrangements	14	
Risks of significant VFM weaknesses	15	
Audit logistics and team	16	
Audit fees	17	Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.
Independence and non-audit services	19	
Appendix 1: Revised Auditor Standards and application guidance	20	

Key matters

Factors

Impact of Covid-19 pandemic

Like all people and organisations, the Police and Crime Commissioner (PCC) and the Chief Constable and their respective staff have been impacted the Covid-19 pandemic. The Chief Constable and associated police officers have had to deal with policing changing demands and requirements as a result of the updates to guidance, rules and regulations issued by the UK Government throughout the pandemic, and the various lockdowns and restrictions that have been imposed. These requirements have sometimes been unclear which creates difficulty in policing the population and creates challenges for all forces to police consistently, with elements of judgement involved in the interpretation of rules.

The PCC and Chief Constable's Medium Term Financial Strategy was refreshed in the year, and this needed to take into account the anticipated impact on the organisations' finances as a result of Covid-19, as well as a number of other sector-wide and local changes, including the continued increases to officer numbers as part of the national uplift in officer numbers.

The PCC and Chief Constable have received additional funding in to deal with the operational impact and additional expenditure arising due to Covid-19, however based on our planning undertaken to date the level of additional funding is not expected to be material for 2020/21 and as such this has not impacted on our overall risk assessment.

We will review the MTFs and the impact of Covid-19 on financial planning as well as operational performance as part of our value for money work.

Due to the pressures faced by organisations in the public sector as a result of the pandemic, we are aware that there could be increased incentive and opportunity for organisations to manipulate their financial statements. We have not identified a significant risk of fraud in relation to revenue or expenditure at this stage, however we will review the PCC's and Chief Constable's arrangements around the receipt of Covid-19 funding in forming our assessment of whether a significant fraud risks exists.

Local developments

Mr John Campion was re-elected to the post of Police and Crime Commissioner following the election in early May 2021. The current Chief Constable, Mr Anthony Bangham, is due to retire in September 2021 and as such West Mercia Police will see the appointment of a new Chief Constable later in 2021 following the process to be run by the PCC.

Our response

As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Joint Audit Plan, have been discussed with your Chief Finance Officers.

We will review progress against the recommendations raised in our 2019/20 Joint Audit Findings Report, and provide the Joint Audit and Standards Committee with an update as part of our Audit Findings Report.

We will continue to provide you with sector updates via our progress updates at each Committee.

The PCC's valuer reported a material uncertainty in regards to the valuation of properties in 2019/20 due to the Covid-19 pandemic and we expect significant uncertainty will continue in 2020/21. We identified a significant risk in regards to the valuation of properties – please refer to page 7.

Defined benefit pension liabilities represent a significant accounting estimate in the CC and Group financial statements. We have identified a significant risk in regards to the valuation of the pension scheme net liabilities – refer to page 8.

We have considered the impact which Covid-19 has had on the PCC and Chief Constable's revenue and expenditure. For 2020/21 our current understanding is that the level of additional Covid-19 specific funding and related expenditure is unlikely to be material, and as such there has been no overall change to our risk assessment in relation to the potential for fraud in relation to revenue and expenditure recognition in 2020/21.

We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audits of both the Police and Crime Commissioner for West Mercia ('the PCC') and the Chief Constable for West Mercia ('the Chief Constable') for those charged with governance. Those charged with governance are the PCC and the Chief Constable.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the PCC and the Chief Constable. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for:

- Forming and expressing an opinion on the PCC, Chief Constable and group's financial statements that have been prepared by management with the oversight of those charged with governance (the PCC and the Chief Constable); and
- Providing a commentary on the Value for Money arrangements in place at each body for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the PCC and the Chief Constable of your responsibilities. It is the responsibility of the PCC and the Chief Constable to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the PCC and the Chief Constable are fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the PCC and the Chief Constable's business and is risk based.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls (presumed risk under ISA240);
- Valuation of land and buildings; and
- Valuation of the net pension fund liability.

We will communicate significant findings on these areas as well as any other significant matters arising from the audits to you in our Joint Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £4.95m (PY £4.6m) for the group, the PCC and the Chief Constable, which equates to 1.9% of the PCC's prior year gross expenditure. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.248m (PY £0.230m).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has not identified and risks of significant weakness to date.

Audit logistics

Our interim visit took place in April 2021 and our final visit will commence in September 2021. We propose to have selected samples for testing prior to the beginning of September. Our key deliverables are this Joint Audit Plan, our Joint Audit Findings Report and our Auditor's Annual Report.

Our proposed fee for the 2020/21 audit will be £40,745 (PY: £36,932) for the PCC and £21,073 (PY: £20,584) for the Chief Constable, subject to the organisations delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Police and Crime Commissioner for West Mercia	Yes	Audit of the financial information of the component using component materiality	See pages 6-8 for details of the risks identified	Full scope audit performed by Grant Thornton UK LLP
Chief Constable for West Mercia	Yes	Audit of the financial information of the component using component materiality	See pages 6-8 for details of the risks identified	Full scope audit performed by Grant Thornton UK LLP

As police bodies, the single entity financial statements are created via a disaggregation process from the Group financial statements, rather than from a consolidation process as would be expected for normal Group accounts. As such, a single materiality is used for both single entity audits and the Group audit. Further information on the materiality applied is included on page 13.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
ISA240 revenue and expenditure recognition risk	Group, PCC and the Chief Constable	<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>In the public sector, in line with the requirements of Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, we also consider whether expenditure may be misstated due to the improper recognition of expenditure.</p> <p>These risks can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue or expenditure recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue and expenditure streams of the Group, the PCC and the Chief Constable, we have determined that the risk of fraud arising from revenue and expenditure recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue or expenditure recognition; • opportunities to manipulate revenue or expenditure recognition are very limited; and • the culture and ethical frameworks of public sector bodies, including the PCC, Chief Constable and group, mean that all forms of fraud are seen as unacceptable. <p>We have considered the level of additional Covid-19 specific funding and related expenditure and do not expect that this will represent a material figure for 2020/21. Therefore we do not consider the fraudulent recognition of revenue or expenditure to be a significant risk for the PCC, Chief Constable or Group.</p>
Management over-ride of controls	Group, PCC and the Chief Constable	<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.</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>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Group and PCC	<p>The PCC (and group) revalue land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value or the fair value (for surplus assets) at the financial statements date via full valuations or on a desktop basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£80.2 million at 31 March 2020) and the sensitivity of this estimate to changes in key assumptions.</p> <p>We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • discuss with the valuer the basis on which the valuations were carried out to ensure that the requirements of the Code are met; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • test, on a sample basis, revaluations made during the year to ensure they were based on accurate underlying data (such as floor areas used as the basis of the valuation) and have been input correctly into the PCC (and group's) asset register; and • evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of pension fund net liabilities	Group and Chief Constable	<p>The group's pension fund net liabilities represent significant estimates in the financial statements. The pension fund liabilities as at 31 March 2020 totalled £2,604 million and comprised:</p> <ul style="list-style-type: none"> Local Government Pension Scheme (LGPS) net liability; and Police Pension Scheme net liability. <p>The pension fund net liabilities are considered a significant estimate due to the size of the numbers involved in the group's balance sheet and the sensitivity of the estimates to changes in key assumptions.</p> <p>We therefore identified valuation of the group's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> update our understanding of the processes and controls put in place by management to ensure that the group's pension fund net liabilities are not materially misstated and evaluate the design of the associated controls; evaluate the instructions issued by management to their management experts (the actuaries) for this estimate and the scope of the actuaries' work; assess the competence, capabilities and objectivity of the actuaries who carried out the pension fund valuation for the LGPS and Police Pension schemes; assess the accuracy and completeness of the information provided by the group to the actuaries to estimate the liability; test the consistency of the pension fund asset and liabilities and disclosures in the notes to the core financial statements with the actuarial reports from the actuaries; undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuaries (as auditor's expert) and performing any additional procedures suggested within the report; and obtain assurances from the auditor of Worcestershire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Joint Audit Findings Report. If we identify any additional risks during the completion of our remaining planning procedures or during the course of our audits we will report these to you via our Joint Audit Findings Report.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

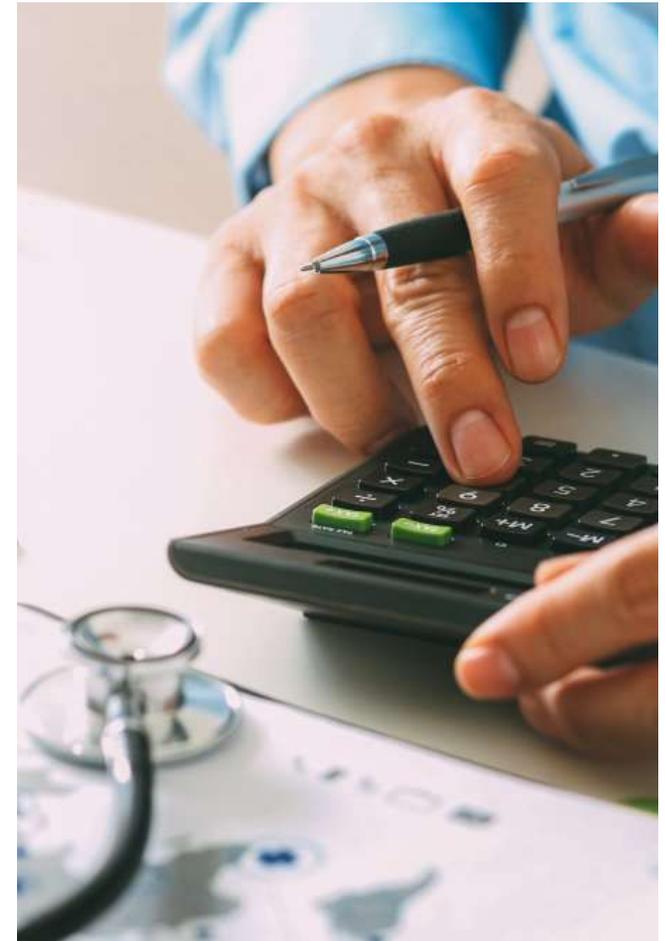
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do the PCC and the Chief Constable:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audits for the year ended 31 March 2021.

Based on our knowledge of the PCC and the Chief Constable, we have identified the following material accounting estimates for which this is likely to apply:

- pensions net liability valuation – LGPS (Chief Constable and Group)
- pensions net liability valuation – PPS (Chief Constable and Group)
- PPE land and buildings valuations (PCC and Group)
- PPE useful lives (PCC and Group)
- borrowings fair value valuation (PCC and Group)
- identification and valuation of significant accruals (PCC and Chief Constable).

The PCC and the Chief Constable's Information systems

In respect of the PCC and the Chief Constable's information systems, we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the bodies use management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the bodies (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have inquired with management on their approach to accounting for estimates. The responses from these requests will be presented to the Joint Audit and Standards Committee.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report[s] and Annual Governance Statement[s] to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the PCC and the Chief Constable.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement[s] are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
 - issuing a report in the public interest or written recommendations to the PCC or the Chief Constable under section 24 of the Local Audit and Accountability Act 2014 (the Act);
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act; and/or
 - issuing an advisory notice under section 29 of the Act.
- We certify completion of our audits.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the PCC and the Chief Constable's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report (see page 14).

Materiality

The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the group, the PCC and the Chief Constable for the financial year. In the prior year we used the same benchmark, but adjusted gross expenditure figures to remove the impact of significant one-off pension adjustments.

For our audit testing purposes we apply the lowest of these materiality levels, which is £4.95m (PY £4.6m), which equates to 1.9% of the PCC's prior year gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £20k for Senior Officers Remuneration.

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

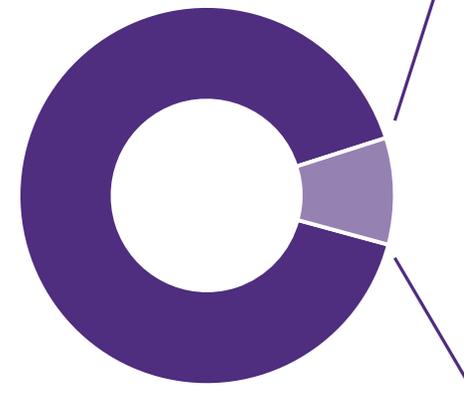
Matters we will report to the PCC and the Chief Constable

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the PCC and the Chief Constable any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group, the PCC and the Chief Constable, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.248m (PY £0.230m).

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

Prior year gross operating costs

£287.0m group
(PY: £258.8m)
£263.0m PCC
(PY: £242.5m)
£275.0m Chief Constable
(PY: £246.8m)



Materiality



Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audits.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out in the diagrams to the right.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Risks of significant weakness

Our planning to date has not identified any risks of significant weakness.

Our detailed work will cover the three specified reporting criteria, our work will include consideration of the following:

- development of a sustainable MTFP via the implementation of the Force transformation programme, the monitoring of benefits realisation and the delivery of savings;
- development of the finance function following the end of the Strategic Alliance, in particular around the development of inexperienced team members and delivering the key role which finance can play in support of wider change management programmes; and
- progress on transitioning the remaining Strategic Alliance services to their agreed final service model following the end of the agreement.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit logistics and team



Jackson, Key Audit Partner

Jackson leads our relationship with you and is a key contact for the PCC, Chief Constable, Chief Finance Officers and the Joint Audit and Standards Committee. Jackson takes overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value.



Andy Reid, Senior Audit Manager

Andy's role involves overseeing the day to day planning and execution of the audit, ensuring the audit requirements are fully complied with and producing reports for the Joint Audit and Standards Committee. He will respond to ad-hoc queries whenever raised and meet regularly with the Chief Finance Officers and members of the finance team.



Nikita Rai, Audit In-charge

As the In-charge, Nikita is responsible for day-to-day management of the audit planning, interim and final accounts audit fieldwork, ensuring that your audit is delivered effectively and efficiently.

Audited body responsibilities

Where audited bodies do not deliver to the timetable, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the timetable you have agreed with us, including all notes, the Narrative Reports and the Annual Governance Statements;
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you;
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the financial statements, in order to facilitate our selection of samples for testing;
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audits; and
- respond promptly and adequately to audit queries.

Audit fees

In 2017, PSAA awarded a contract of audit for West Mercia PCC and CC to begin with effect from 2018/19. The fee agreed in the contract was £23,897 for the PCC and £11,550 for the Chief Constable. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 14, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee of £7,000 for the PCC and £2,000 for the Chief Constable. This is in line with increases we are proposing at all our local audits.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fees for 2020/21, as set out below, is detailed overleaf.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
PCC Audit	£29,820	£36,932	£40,745
Chief Constable Audit	£15,498	£20,584	£21,073
Total audit fees (excluding VAT)	£45,318	£57,516	£61,818

Assumptions

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

- prepare a good quality set of financial statements, supported by comprehensive and well presented working papers which are ready at the start of the audits
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

	PCC	Chief Constable
Scale fee published by PSAA	26,380	14,438
<i>Recurrent increases to scale fee first identified in 2019/20</i>		
Raising the bar/regulatory factors	1,615	885
Enhanced audit procedures for Property, Plant and Equipment		1,750
Enhanced audit procedures for Pensions	1,750	
Rebased recurrent audit fee 2019/20	29,745	17,073
<i>(Additional non-recurrent fees charged in 2019/20 not anticipated for 2020/21)</i>	<i>(£7,187)</i>	<i>(£3,511)</i>
<i>New issues for 2020/21</i>		
Additional work on Value for Money (VfM) under new NAO Code	7,000	2,000
Increased audit requirements of revised ISAs	4,000	2,000
<i>Proposed increase to recurrent 2019/20 fee</i>	<i>11,000</i>	<i>4,000</i>
Total audit fees (excluding VAT)	40,745	21,073

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the PCC and the Chief Constable.

Other services

No other services provided by Grant Thornton have been identified for 2020/21.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audits.

Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	
ISA (UK) 230 – Audit Documentation	January 2020	
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	



© 2021 Grant Thornton UK LLP.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.