

The Joint Annual Audit Letter for Warwickshire Police and Crime Commissioner and Warwickshire Chief Constable

Year ended 31 March 2020

December 2020



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at the Police and Crime Commissioner for Warwickshire (the PCC) and the Chief Constable for Warwickshire (the Chief Constable) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the PCC, Chief Constable, and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Joint Audit and Standards Committee and those charged with governance in our Audit Findings Report on 21 October 2020.

Our work

Materiality	We determined materiality for the audit of the PCC's and Chief Constable's financial statements to be £2,100,000, which is 1.9% of the PCC's gross cost of services.
Financial Statements opinion	We gave an unqualified opinion on both the PCC's and Chief Constable's financial statements on 30 November 2020. We included emphasis of matter paragraphs in our reports in respect of the uncertainty over valuations of the PCC's land and buildings, and similar uncertainty over valuations of property assets held by the Warwickshire pension fund and the impact on both the PCC's and Chief Constable's net pension liabilities, given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the PCC's and Chief Constable's financial position and their income and expenditure for the year.
Whole of Government Accounts	We completed work on the group's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the PCC and Chief Constable each put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit reports on 30 November 2020.
Certificate	We certified that we have completed the audit of the financial statements of the PCC and Chief Constable in accordance with the requirements of the Code of Audit Practice on 30 November 2020.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the group's staff.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give opinions on the PCC's and Chief Constable's financial statements (section two)
- assess the PCC's and Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the PCC's and Chief Constable's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Grant Thornton UK LLP
December 2020

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the PCC's and Chief Constable's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of both the PCC's and Chief Constable's financial statements to be £2,100,000, which is 1.9% of the PCC's gross cost of services. We used this benchmark as, in our view, users of the financial statements are most interested in where the PCC and Chief Constable have spent their revenue in the year.

We also set a lower level of specific materiality of 1.9% of the disclosure balance for disclosures relating to remuneration of senior officers, due to their sensitive nature.

We set a lower threshold of £105,000, above which we reported errors to those charged with governance in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statements of Accounts to check they are consistent with our understanding of the PCC and the Chief Constable, and with the financial statements included in the Statements of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Covid-19</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 current circumstances would have an impact on the production and audit of the financial statements for the year ended 31 March 2020</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> worked with management to understand the implications the response to the Covid-19 pandemic has had on the organisation's ability to prepare the financial statements and update financial forecasts, and assessed the implications for our materiality calculations; liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose; evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; evaluated whether sufficient audit evidence could be obtained in the absence of physical verification of assets through remote technology; evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances; and evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment 	<p>The PCC's valuer reported their valuations as at 31 March 2020 on the basis of 'material valuation uncertainty'.</p> <p>Similarly, the Warwickshire Pension Fund property and infrastructure allocations as at 31 March 2020 were difficult to value.</p> <p>We referred to these material valuation uncertainties in our audit reports for the PCC and Chief Constable.</p> <p>We did not identify any other issues or concerns to report.</p>
<p>Valuation of land and buildings</p> <p>The PCC revalues land and buildings on a rolling basis to ensure that the carrying value is not materially different from the current value or fair value at the financial statements date.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; evaluated the competence, capabilities and objectivity of the valuation expert, and written to the valuer to confirm the basis on which the valuations were carried out; challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; tested, on a sample basis, revaluations of properties during the year to ensure they have been input correctly into the PCC's asset register and financial statements; evaluated the assumptions made by management for any 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. 	<p>Other than the material uncertainties referred to in relation to Covid-19 above, our audit work did not identify any issues in relation to the valuation of land and buildings.</p>

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension liability</p> <p>The Chief Constable's (and group's) pension fund net liability, as reflected in the 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 and the sensitivity of the estimate to changes in key assumptions.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the Chief Constable's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Chief Constable's pension fund valuation; • assessed the accuracy and completeness of the information provided to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • completed 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 that report. 	<p>The draft financial statements were prepared using an outdated version of the actuary's report, which required correction.</p> <p>In addition, a material adjustment was made to reflect the potential changes in the pension liability following draft amendments to the statutory underpin being issued for consultation in July 2020. This resulted in a reduction of £11,370k in the pension liability disclosed in the Chief Constable's and group's financial statements.</p> <p>Other than the material uncertainties referred to in relation to Covid-19 above, our audit work has not identified any issues in respect of the valuation of the Chief Constable's pension fund net liability</p>
<p>Management override of internal controls</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.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied and made by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. 	<p>Our audit work did not identify any issues in respect of management override of controls.</p>

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Transfer of financial information to the updated general ledger</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>As part of our audit work we have:</p> <ul style="list-style-type: none"> • Reviewed and assessed 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; • 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, giving specific consideration to the transactions posted in the first week of February as the new system went live on 10 February 2020; and • completed an information technology (IT) environment review to document and evaluate the IT controls operating within the new general ledger system. 	<p>Due to delays in receiving the necessary information, we were required to change the work that we planned to undertake to gain assurance over this transfer, as management were unable to provide us with the necessary reports.</p> <p>No issues were identified in relation to the transfer of the data.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on each of the PCC's and Chief Constable's financial statements on 30 November 2020.

Preparation of the financial statements

The group presented us with draft financial statements in July in accordance with the agreed timescale, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Joint Audit and Standards Committee on and those charged with governance in our Audit Findings Report on 21 October 2020.

Annual Governance Statement and Narrative Report

We are also required to review the PCC's and Chief Constable's Annual Governance Statements and Narrative Reports. These were published on their websites in and alongside the draft Statements of Accounts.

Both documents for both entities were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that these documents were consistent with the financial statements prepared by the PCC and Chief Constable respectively, and with our knowledge of the entities.

Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO. We issued an assurance statement which confirmed the group was below the audit threshold.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of the PCC and the Chief Constable in accordance with the requirements of the Code of Audit Practice on 30 November 2020.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that in all significant respects, both the PCC and Chief Constable put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources for the year ending 31 March 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The dissolution of the Strategic Alliance</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>As part of our work we have:</p> <ul style="list-style-type: none"> • Held discussions with key members of staff across the PCC and Chief Constable to understand and challenge the arrangements in place; • Reviewed the work of other organisations, including HMICFRS and internal audit, and the work done by management to address these findings; • Considered communications with the Joint Audit and Standards Committee and the Police and Crime Panel; • Considered the work performed on the settlement agreement, by both the independent team appointed by the Home Office; and CIPFA; and • Considered the potential impact of the dissolution on service delivery. 	<p>Although we consider that there continued to be issues in the arrangements surrounding the separation process during the first half of the 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.</p> <p>We have concluded that the risk was sufficiently mitigated by both the PCC and the Chief Constable.</p>

A. Reports issued and fees

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

Fees

	Planned £	Actual fees £
Statutory audit – PCC	28,397	33,907
Statutory audit – Chief Constable	13,900	17,135
Total fees	42,497	51,042

Reports issued

Report	Date issued
Audit Plan	March 2020
Audit Findings Report	October 2020
Annual Audit Letter	December 2020

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £23,897 for the PCC and £11,550 for the Chief Constable assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work.

The Joint Audit Plan presented in March 2020 included £7,050 of proposed additional fees to the scale fee to take account of the additional scepticism required on the audit, the raising of the bar by our regulator and the further work arising from local developments, including the issues and changes arising from the dissolution of the strategic alliance. This is reflected in the total proposed audit fees at planning above.

Since the presentation of the Joint Audit Plan, we have added a significant risk to the audit following the impact of Covid-19. We have now reflected on the time taken to discharge our responsibilities this year and are proposing a further increase in fees of £8,745 in addition to those proposed at the planning stage of the audit. This brings the total proposed audit fee for the group up to £51,042. Further details on the breakdown is provided on the next page.

This further charge has not been entered into lightly but reflects only a proportion of the significant additional work we have had to undertake this year to discharge our responsibilities.

We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer, with commercial audit deadlines being extended by four months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached <https://www.frc.org.uk/covid-19-guidance-and-advice> (see guidance for auditors) sets out the expectations of the FRC.

We have discussed these additional fees with the Treasurer to the PCC and the CFO for the Chief Constable. Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

Audit area	PCC	Chief Constable	Rationale for fee variation
Scale fee	£23,897	£11,550	
Raising the bar	1,250	600	The Financial Reporting Authority (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Pensions – valuation (IAS) 19		1,750	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	1,750		We have increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.
Developments and local issues	1,500		You are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust.
Revised fee per Plan	£28,397	£13,900	
Other changes	1,250	1,150	During the 2019/20 year, the group have introduced a new ledger system, which has necessitated audit procedures to gain assurance over the transfer of data from the old to the new system. In addition, following the dissolution of the strategic alliance, there have been changes within the finance team which have led to some inefficiencies this year.
Covid-19	4,260	2,085	Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes: <ul style="list-style-type: none"> • Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties. • Management's assumptions and estimates - there is increased uncertainty over many estimates including pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. • Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260. • Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including the delays in receiving accounts, quality of working papers, and delays in responses. These are understandable and arise from the availability of the relevant information and/or the availability of key staff (due to shielding or other additional Covid-19 related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.
Total proposed final audit fees	£33,907	£17,135	



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