

A background image showing a white table with several sheets of paper, a smartphone, and the hands of people sitting around it. A yellow banner is overlaid on the left side of the image.

Audit planning report

The Police and Crime Commissioner
for Staffordshire

The Chief Constable for Staffordshire

Year ended 31 March 2021

18 May 2021



Private and Confidential

18 May 2021

Police and Crime Commissioner and Chief Constable for Staffordshire
Chief Constable for Staffordshire
Weston Road
Stafford
ST18 0YY

Dear Ben and Gareth

External Audit planning report 2020/21

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide you and the Ethics, Transparency and Audit Panel (ETAP) with a basis to review our proposed audit approach and scope for the 2020/21 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned to your expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Police and Crime Commissioner (PCC) and Chief Constable (CC), and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of you, ETAP and senior management of both the PCC and CC, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 26 May 2021 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Helen Henshaw
Associate Partner
For and on behalf of Ernst & Young LLP

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Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment" and further guidance (updated April 2018) issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the PCC, CC, ETAP and senior management of both the office of the PCC and CC in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the PCC, CC, ETAP and senior management of both the office of the PCC and CC those matters we are required to state to them in this 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 PCC, CC, ETAP and senior management of both the office of the PCC and CC for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Overview of our 2020/21 audit strategy



Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the PCC and CC with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of fraud in revenue and expenditure recognition	Fraud risk/ Significant risk	No change in risk or focus from the prior year	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. See page 11 for details.
Misstatements due to fraud or error	Fraud risk	No change in risk or focus from the prior year	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. Further details are outlined at page 12.
Valuation of property, plant and equipment (PPE) – land and buildings and revaluations gains and losses	Significant risk	Change in risk or focus from the prior year	PPE accounts for a significant proportion of the PCC's assets (£49.65m at 31 March 2020). The valuation of land and buildings is complex and subject to a number of assumptions and judgements by management's expert. A small movement in these assumptions can have a material impact on the financial statements. The 2019/20 audit identified a number of issues with the valuation of PPE. For this reason we have elevated the PPE valuation of land and buildings to significant risk. We have also extended the risk to include the treatment of gain or losses arising from revaluations as these were treated incorrectly in the prior year. Further details are on page 13.

Overview of our 2020/21 audit strategy

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Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Local Government Pension scheme (LGPS) and the Police Pension Fund scheme	Higher inherent risk	No change in risk or focus from the prior year	<p>Funding of the Group's participation in both the LGPS and the Police Pension Fund will continue to have an impact on both its cash flows and the liability in the balance sheet.</p> <p>The PCC and CC are members of the LGPS, administered by Staffordshire Pension Fund. The net pension liability was £1.909 billion as at 31 March 2020.</p> <p>The estimation of the defined benefit obligations is sensitive to a range of assumptions such as rates of pay and pension inflation, mortality and discount rates. The pension fund valuations for both schemes requires advice from an external specialists, to provide these actuarial assumptions. A small movement in these assumptions could have a material impact on the value in the balance sheet. Further details are provided at page 14.</p>
IFRS 16 – accounting for leases	Other financial statement risk	Change in risk or focus from the prior year	<p>The implementation of this accounting standard was identified as an area of audit focus in the 2019/20 Audit Plan as it was due to be implemented on 1 April 2020. However due to pressures on Local Authority finance teams as a result of the COVID-19 pandemic the CIPFA LASAAC Local Authority Accounting Code Board has agreed to defer the implementation date to 1 April 2022. This deferral is limited to one year only and no further extensions will be made based on lack of preparedness. Further details of the risk are provided at page 15.</p>

Overview of our 2020/21 audit strategy (continued)

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of the PCC and CC for Staffordshire give a true and fair view of the financial position as at 31 March 2021 and of the income and expenditure for the year then ended; and
- Our conclusion on the PCC and CC's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the PCC's and CC's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the PCC and CC.

Overview of our 2020/21 audit strategy (continued)

Value for money conclusion (VFM)

One of the main changes in the NAO's 2020 Code of Audit Practice is in relation to the value of money conclusion. We include full details in section 3 but in summary

- We are still required to consider whether the PCC and CC has put in place 'proper arrangements' to secure the economy, efficiency and effectiveness on its use of resources
- Planning on VFM and the associated risk assessment is now focused on gathering sufficient evidence to enable us to document our evaluation of the PCC and CC arrangements, to enable us to draft commentary under the three reporting criteria detailed below. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.
- We will be required to provide a commentary on the arrangements of both the PCC and CC against the following reporting criteria;
 - Financial sustainability – how the PCC and CC plans to manage its resources to ensure it can continue to deliver its services;
 - Governance – how the PCC and CC ensures that it makes informed decisions and properly manages its strategic risks; and
 - Improving economy, efficiency and effectiveness – how the PCC and CC uses information about its costs and performance to improve the management and delivery of services to the public.
- Within the audit opinions we still only report by exception where we are not satisfied that the PCC and CC has proper arrangements in place for securing the economy, efficiency and effectiveness in its use of resources.
- The commentary on arrangements will be included in a new Auditor's Annual Report which can be issued after the audit opinions for the financial statements are reported.

Overview of our 2020/21 audit strategy

Materiality

Planning
materiality

Materiality has been set at 2% of the relevant materiality basis as set out in the table below.

Performance
materiality

In accordance with ISA320 we have considered a number of factors to determine the performance materiality and taking account of the volume of errors and that misstatements exceeded 25% of performance materiality in the prior year audit, we have set the threshold at 50%.

Audit
differences

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, and pension fund financial statements) greater than a defined level. Other misstatements identified will be communicated to the extent that they merit the attention of ETAP. See page 21 for further details.

Entity	Basis of materiality	Planning materiality	Performance materiality	Audit differences
Group	Gross revenue expenditure	£3.848m	£1.924m	£0.192m
PCC	Gross assets	£2.628m	£1.314m	£0.131m
CC	Gross revenue expenditure	£3.631m	£1.815m	£0.182m



02 Audit risks



Audit risks

Our response to significant risks

We have set out the significant risks identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Risk of fraud in revenue and expenditure recognition

Financial statements impact

Misstatements that occur in relation to the risk of fraud in both revenue and expenditure that could affect the comprehensive income and expenditure statement of the PCC and CC.

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

In respect of income and expenditure we consider that the risk for 2020/21 is most focussed around those items that are non-routine and involve management estimation and judgement such as accruals. The risks predominantly relate to the following areas:

1. Improper cut-off of non-payroll revenue expenditure and non-grant income; and
2. Inappropriate capitalisation of revenue expenditure specific to PPE additions including assets under construction and expenditure for intangible fixed assets.

Our audit approach

We will undertake substantive procedures in response to this risk. The procedures designed to address the identified risk are as follows;

- Review and test revenue and expenditure recognition policies;
- Using a sample of transactions cut-off and search for unrecorded liabilities for non-payroll expenditure with focus to identify any unrecorded liabilities missing from the financial statements;
- Test a sample of non-grant income transactions before and after 31 March 2021 to ensure that recognition is in accordance with the revenue accounting policies for the group; and
- Test a sample of PPE additions with specific focus on in year expenditure for assets under construction and intangible fixed assets to determine that the transactions are accounted for in accordance with IAS 16.

Our response to significant risks (continued)

Misstatements due to fraud or error	What is the risk?	Our audit approach
<p>Financial statements impact</p> <p>Misstatements that occur in relation to the risk of fraud or error could affect both the Comprehensive income and expenditure statement and the balance sheet. We deem the risk most prevalent when reviewing journals involved in the financial statements close process.</p>	<p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>We will;</p> <ul style="list-style-type: none"> • Identifying fraud risks during the planning stages; • Inquiry of management about risk of fraud and the controls put in place to address those risks; • Understand the oversight given by those charged with governance of management process over fraud; • Consideration of the effectiveness of management's controls designed to address the risk of fraud; • Review and discuss with management any changes the methodologies of existing and new accounting estimates, accruals and provisions for evidence of bias; • Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the group and single entity financial statements; • Risk based testing of journals from the accounting period that are identified from the application of specified audit risk criteria. • Consider and evaluate the existence and nature and business rationale of significant unusual transactions; and • Consider the completeness of provisions in the financial statements are based on our understanding of the PCC and CC.

Audit risks

Our response to significant risks (continued)

Valuation of land and buildings including the accounting treatment of the gain or loss on revaluation in the financial statements

Financial statements impact

As the PCCs asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk land and building assets statement in the balance sheet may be under/overstated.

What is the risk?

Valuation of PPE

The fair value of Property, Plant and Equipment including assets held for sale, represent significant balances in the Group accounts and are subject to valuation changes and impairment reviews which are based on assumptions and judgements. The risk is if these are inappropriate this could result in a material impact on the financial statements.

Our audit approach

We will;

- Document our understanding of the processes and controls in place to mitigate the risks identified, and walk through those processes and controls to confirm our understanding;
- Test the revaluation cycle, including instruction and completeness of information provided to the external valuer (e.g. floor plans to support valuations based on price per square metre);
- Review each class of asset and the valuation approach adopted to assess where the risk of material misstatement is higher. We will share this risk assessment with management;
- Evaluate the competence, capabilities and objectivity of management's specialist;
- Review any terms of engagement or instructions issued to the valuer to ensure these are consistent with accounting standards;
- Perform appropriate tests over the completeness and appropriateness of information provided to the valuer;
- Engage our valuation specialist to support our testing strategy and help evaluate the work of the management specialist;
- Review the classification of assets and ensure an appropriate valuation methodology has been applied;
- Review assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated;
- Consider changes to useful economic lives as a result of the most recent valuation; and
- Test the accounting entries including the calculation of the gain or loss on revaluation to confirm that the adjustments have been correctly processed in the financial statements.

Inherent risks

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?	Our audit approach
<p>Pension Liability Valuation</p> <p>The Local Authority Accounting Code of Practice and IAS19 require extensive disclosures within the financial statements regarding membership of the Local Government Pension Scheme administered by Staffordshire County Council.</p> <p>The information disclosed is based on the IAS 19 report issued to the PCC and CC by the actuaries to the County Council and also the Police Pension Fund. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>Local Government and Police Pension Schemes</p> <p>We will:</p> <ul style="list-style-type: none"> • Update our documentation of management's processes and controls over pension expenditure and deduction of employer and employee contributions; • Liaise with the auditors of Staffordshire Pension Fund, to obtain assurances over the information supplied to the actuary; • Review the work of the Local Government actuary (Hymans Robertson LLP) and the Police Pension actuary (GAD) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team to ensure they are in our expected range; and • Review and test the accounting entries and disclosures made within the PCC and CC's financial statements to ensure consistency with the IAS 19 entries in both actuarial reports. <p>Police Pension Scheme (only)</p> <p>We will:</p> <ul style="list-style-type: none"> • Test a sample of lump sums and pension payments for new Police pensioners; and • Complete a predictive analytical review for both the pensions payroll and employees and employers pension contributions.

Audit risks

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?

IFRS 16 – Accounting for leases

IFRS 16 accounting for leased was issued by the IASB in 2016. Its main impact is to remove (for lessees) the traditional distinction between finance leases and operating leases.

Finance leases have effectively been accounted for as acquisitions (with the asset on the balance sheet, together with a liability to pay for the asset acquired). In contrast, operating leases have been treated as “pay as you go” arrangements, with rentals expensed in the year they are paid. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

The CIPFA LASAAC Local Authority Accounting Code Board has agreed to defer the implementation of IFRS 16 Leases in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) until the 2022/23 financial year. This aligns with the decision at the Government's Financial Reporting Advisory Board to establish a new effective date of 1 April 2022 for the implementation of IFRS 16.

Our audit approach

Although the new standard will not be included until CIPFA Code of Practice until 2022/23, work will be necessary to secure information required to enable Local Government bodies to fully assess their leasing position and ensure compliance with the standard from 1 April 2022.

In particular, full compliance with the revised standard is likely to require a detailed review of existing lease and other contract documentation prior to 1 April 2022 in order to identify:

- All leases which need to be accounted for
- The costs and lease term which apply to the lease
- The value of the asset and liability to be recognised as at 1 April 2022 where a lease has previously been accounted for as an operating lease.

We will discuss with management what progress has been made for the implementation of IFRS 16.



03

Value for Money Risks



Value for money

PCC and CC responsibilities for value for money

The PCC and CC is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

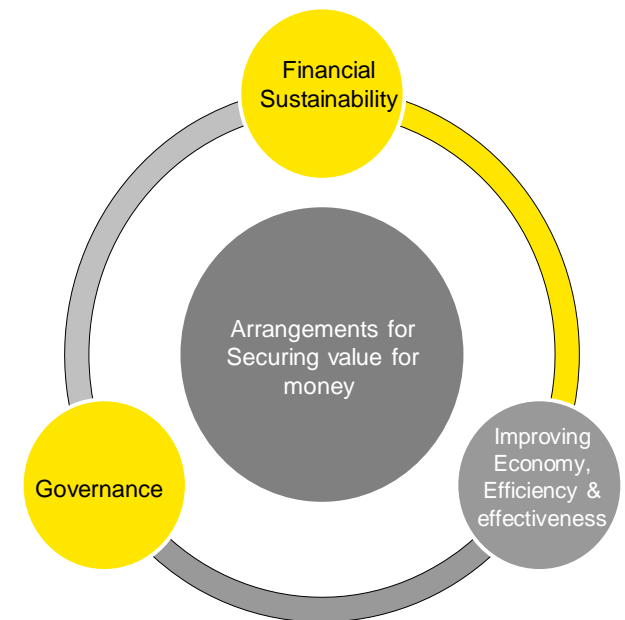
As part of the material published with its financial statements, the PCC and CC is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the PCC and CC tailor's the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Auditor responsibilities under the new Code

Under the 2020 Code we are still required to consider whether the PCC and CC has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the PCC and CC a commentary against specified reporting criteria (see below) on the arrangements the PCC and CC has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability
How the PCC and CC plans and manages its resources to ensure it can continue to deliver its services;
- Governance
How the PCC and CC ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:
How the PCC and CC uses information about its costs and performance to improve the way it manages and delivers its services.



Value for money risks

Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the PCC and CC's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. This is a change to 2015 Code guidance notes where the NAO required auditors as part of planning, to consider the risk of reaching an incorrect conclusion in relation to the overall criterion.

In considering the overall arrangements, we are required to consider:

- The PCC and CC's governance statement
- Evidence that the PCC and CC's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates (such as HMICFRS) and other bodies and
- Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes – or could reasonably be expected to expose – the PCC and CC to significant financial loss or risk;
- Leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the PCC and CC's reputation;
- Leads to – or could reasonably be expected to lead to – unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the PCC and CC;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- The impact of the weakness on the PCC and CC's reported performance;
- Whether the issue has been identified by the PCC and CC's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the PCC and CC has had to respond to the issue.

Value for money risks

Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to ETAP.

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the PCC and CC has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the attention of the PCC and CC or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of our 2020/21 VFM planning

We have not fully completed our detailed VFM planning. However, one area of focus will be on the arrangements that the PCC and CC has in place in relation to financial sustainability in light of the impact of covid-19 has on Local Government finances.

In the 2019/20 Audit Results Report, we identified a change in Force Governance arrangements from September 2020 which, from review of the document entitled "Force Governance - Decision Making and Assurance Framework September 2020" would result in key decisions which "may impact on public confidence, are sensitive or have novel, contentious, or repercussive" being made in a forum which excludes the Chief Finance Officer who holds the s151 responsibilities for the Force. We have had discussions with both the PCC and the CC's office and are in the process of reviewing additional evidence that we have now been provided with in order to conclude on this matter.

A close-up, shallow depth-of-field photograph of a stack of Indian Rupee banknotes. The focus is on the texture and intricate patterns of the currency, with the numbers '1000' and 'RESERVE BANK OF INDIA' visible on the notes. The colors are muted, showing shades of green, yellow, and brown.

04

Audit materiality



Materiality

Materiality

For planning purposes, materiality for the PCC Group and PCC Single Entity for 2020/21 is based on 2% of the audited prior year gross expenditure for the PCC Group and prior year gross assets for PCC Single Entity.

Planning materiality for the CC Single Entity has been set on 2% of the audited prior year gross expenditure.

All levels of materiality will be reassessed throughout the audit process and reported in the Audit Results Report.

Key definitions

On page 9, we have set out the thresholds for;

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the PCC and the CC, or are important from a qualitative perspective.

Specific materiality – We have considered disclosures in the financial statements where misstatement at a lower level than our overall materiality level might influence the reader. For our audit strategy we have assessed the Remuneration disclosures including any severance payments, exit packages including termination benefits and allowances for ETAP members, as numerically sensitive and set a materiality level of £1k, being the rounding number in the financial statements.



05

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the 2020 Code of Audit Practice our principal objectives are to review and report on the PCC and CC's financial statements and arrangements for securing economy, efficiency and effectiveness in their use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the PCC and CC has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on their use of resources.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2020/21 we plan to follow a wholly substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to you, management and ETAP.

Internal audit:

We review the annual internal audit plan and the results of their work reported to ETAP. We do not plan to place reliance on the work of internal audit but will consider the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

Information produced by the entity

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We will undertake the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.



Scope of our audit

Group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk based. We identify components as:

1. Significant components: A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
2. Not significant components: The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

Our preliminary audit scoping identified 2 significant components and 0 non-significant components. We considered whether any changes to this scoping was required and concluded that it remained appropriate.

Scoping by entity and scope definitions

2

Full scope: locations where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations. This scope is relevant to the PCC and CC as single entities.

Group audit team involvement in component audits

The same EY audit team has performed the audit work on both the PCC and CC components, and on the Group.



06

Audit team



Audit team

Audit team structure:

Audit team

Helen Henshaw
Associate Partner



Jason Burgess
Engagement Manager



Zicong Lin
Senior



Specialist

EY Actuaries

EY Valuer

* Key Audit Partner

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	Management's valuation experts and EY estates specialists
Pensions disclosure	Actuaries of the Police Pensions Fund, Staffordshire Pension Fund, the Public Sector Audit Appointments (PSAA) consulting actuary and our EY actuarial service

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the PCC and CC's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



07

Audit timeline





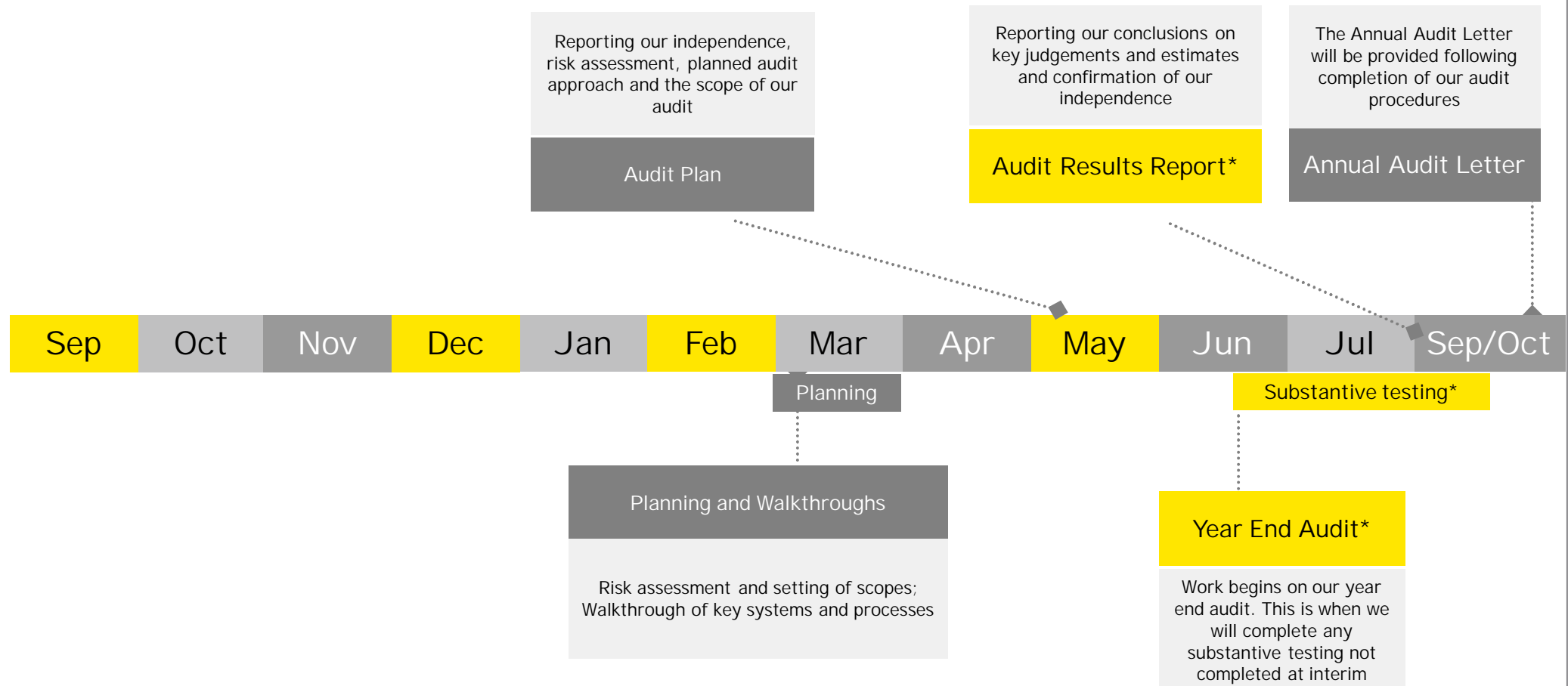
Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2020/21.

From time to time matters may arise that require immediate communication with the PCC and CC and we will discuss them and senior management as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.



* Timings to be agreed and confirmed with management and ETAP.



08

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation] 	<ul style="list-style-type: none"> ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▶ Written confirmation that all covered persons are independent; ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Helen Henshaw, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the PCC and/or CC. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

At the time of writing, there are no non-audit services to be provided.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the PCC and/or CC. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Relationships, services and related threats and safeguards

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Other communications

EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 30 June 2020 and can be found here:

https://www.ey.com/en_uk/who-we-are/transparency-report-2020



09

Appendices



Appendix A

Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2020/21 accounts of opted-in principal local government and police bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

Our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations. Therefore, to the extent any of these are relevant in the context of the audit of the PCC and CC for Staffordshire, we will continue discuss these with management as to the impact on the scale fee.

	Planned Fee 2020/21	Final fee 2019/20	Planned Fee 2019/20
	£	£	£
Total PCC Fee – Code work	24,434	24,434	24,434
Total CC Fee – Code work	11,550	11,550	11,550
Scale fee variation		* 28,494	0
Total audit	35,984	64,478	34,984
Other non-audit services not covered above	0	0	0
Total fees	35,984	64,478	34,984

* The 2019/20 work includes a scale variation fee which is split between the PCC £20,940 and CC £7,554, requiring additional work in the following areas:

- o Going concern;
- o agreed amendments to the financial statements;
- o VFM;
- o Covid-19;
- o Prior period adjustments; and
- o PPE valuations

All fees exclude VAT and the agreed scale variation has been referred to Public Sector Appointments Limited for approval.

The scale fees set by PSAA are based on the following assumptions:




- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided;
- ▶ The PCC and CC have an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with management in advance. Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B




Required communications with the PCC and CC

We have detailed the communications that we must provide to the PCC and CC.

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the PCC and CC of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report (26 May 2021)
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit results report




Appendix B

Required communications with the PCC and CC (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	Audit results report
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management 	Audit results report
Fraud	<ul style="list-style-type: none"> • Enquiries of the PCC and CC to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud 	Audit results report
Related parties	<ul style="list-style-type: none"> • Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity 	Audit results report

Appendix B

Required communications with the PCC and CC (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence 	Audit planning report (26 May 2021) and Audit results report
External confirmations	<ul style="list-style-type: none"> • Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures 	Audit results report
Consideration of laws and regulations	<ul style="list-style-type: none"> • Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • Enquiry of the PCC and CC into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the PCC and CC may be aware of 	Audit results report
Internal controls	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit 	Audit results report
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	<ul style="list-style-type: none"> • Key audit matters that we will include in our auditor's report • Any circumstances identified that affect the form and content of our auditor's report 	Audit results report
Fee Reporting	<ul style="list-style-type: none"> • Breakdown of fee information when the audit plan is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work 	Audit planning report (26 May 2021) and Audit results report

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or activities within the Group to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the ETAP reporting appropriately addresses matters communicated by us to the ETAP and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

Additional audit information (continued)

Other required procedures during the course of the audit (continued)

Procedures required by the Audit Code	<ul style="list-style-type: none">• Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement and the Remuneration Report
Other procedures	<ul style="list-style-type: none">• We are required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice 2020

We have included in Appendix C a list of matters that we are required to communicate to you under professional standards.

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the Group financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.