Audit planning report

The Police and Crime Commissioner for Staffordshire

The Chief Constable for Staffordshire

Year ended 31 March 2020

5 February 2020

Item 8 (i)

Building a better working world

Private and Confidential

5 February 2020

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

Dear Matthew and Gareth

Audit planning report 2019/20

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 2019/20 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 5 February 2020 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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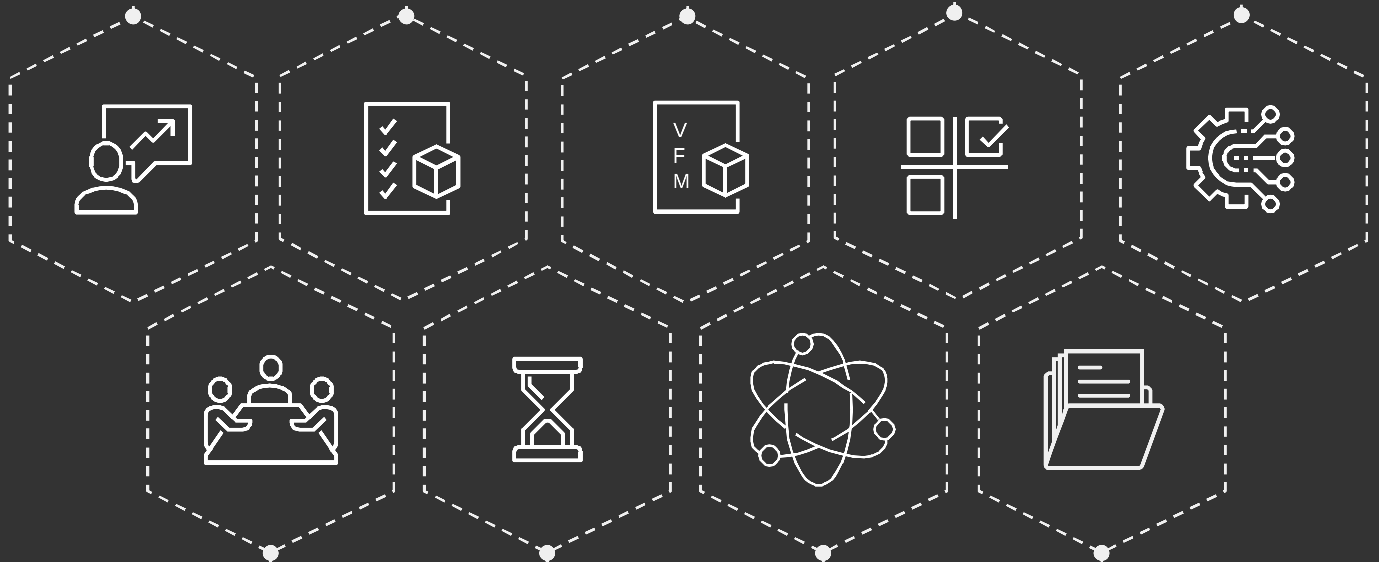


Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/)).The Statement of responsibilities serves as the formal terms of engagement 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 2019/20 audit strategy

Overview of our 2019/20 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	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. The change for 2019/20, is that we have assessed that this risk now covers the inappropriate capitalisation of revenue expenditure. See page 10 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. We have assessed the risk for 2019/20 as relating to: year-end trade payables and the calculation of estimates; accruals and provisions. Further details are outlined at page 11.
Valuation of property, plant and equipment (PPE) – land and buildings	Significant risk	Change in risk or focus from the prior year	PPE accounts for a significant proportion of the PCC's assets (£83.1m at 31 March 2019). The valuation of land and buildings is subject to a number of assumptions and judgements by management's expert. As the PCC/CC has appointed a new management expert to undertake valuations, we increased this to a significant risk for 2019/20. A change in valuer can result in changes to assumptions and methodologies which have a material impact on the recorded value of assets held by the PCC. Further details are on page 12.

Overview of our 2019/20 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
Local Government Pension scheme (LGPS) and the Police Pension Fund scheme	Other financial statement risk	No change in risk or focus from the prior year	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. The PCC and CC are members of the LGPS, administered by Staffordshire Pension Fund. The net pension liability was £2.17 billion as at 31 March 2019. 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 11.
IFRS 16 – accounting for leases	Other financial statement risk	New risk	This is a new accounting standards that is effective 1 April 2020, the expected impact needing to be disclosed in the 2019/20 financial statements. Further details of the risk are provided at page 14.

Overview of our 2019/20 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

Performance materiality has been set at 75% of materiality.

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	£5.7m	£4.2m	£0.28m
PCC	Gross assets	£2.6m	£1.9m	£0.13m
CC	Gross revenue expenditure	£5.5m	£4.1m	£0.28m
Pension Fund	Benefits payable	£1.3m	£0.98m	£0.65m

Overview of our 2019/20 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 2020 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:

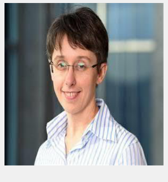
- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

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.

Taking the above into account, and as articulated in this audit plan, 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, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the value for money conclusion. Therefore to the extent any of these are relevant in the context of the audit of the PCC and CC for Staffordshire, we will discuss these with management as to the impact on the scale fee.

Audit team changes

Key changes to our team.



Helen Henshaw (CPFA, ACA) – Associate Partner
Helen will be taking on the engagement lead role for 2019/20. Helen has over 20 year's audit experience across the public and private sector. She now specialises in public sector audit, serving a portfolio of Health and Local Government clients, including a number of police authorities across the midlands.

02 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

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.

We have assessed for 2019/20 that the risk is prevalent predominantly in:

1. Cut-off of revenue expenditure and non-grant income; and

2. Inappropriate capitalisation of revenue expenditure specific to additions for assets under construction.

Our audit approach

We will;

- Review and test revenue and expenditure recognition policies;
- Testing for the cut-off of expenditure at the year-end and conducted testing with focus identify any unrecorded liabilities at the year-end;
- Testing of non-grant income and cut-off to ensure recognition is in accordance with the income accounting policy for the group; and
- Test a sample of PPE additions with specific focus on assets under construction 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?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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.

The risk manifests specifically in whether year-end adjustment journals are appropriate and supported, the application of estimates and judgements, and whether significant or unusual transactions are identified and accounted for appropriately.

Our audit approach

We will;

- Identifying fraud risks during the planning stages;
- Understand the oversight given by those charged with governance of management process over fraud;
- Review and discuss with management any changes the methodologies of existing and new accounting estimates, accruals an provisions for evidence of bias;
- Sample test year-end accruals and provisions for completeness and proper valuation;
- Make enquiries with management’s expert for the calculation of the insurance provision.
- Evaluate the business rationale for significant unusual transactions; and
- Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

Our response to significant risks (continued)

Valuation of land and buildings

What is the risk?

Valuation of PPE

Valuation of assets in previous years has been undertaken by an external valuer. For 2019/20 we note that the management specialist has changed.

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 the 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 new management specialist;
- Review the classification of assets and ensure an appropriate valuation methodology has been applied;
- Review assets not subject to valuation in 2019/20 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 accounting entries have been correctly processed in the financial statements.

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 and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	Our audit approach
Pension Liability Valuation 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. 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.	Local Government and Police Pension Schemes We will: • 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. Police Pension Scheme (only) We will: • 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.

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
IFRS16 - leases IFRS 16 Leases 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. Implementation of IFRS 16 will be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21. This Code has yet to published, but in July 2019 CIPFA/LASAAC issued 'IFRS 16 leases and early guide for practitioners'. This early guidance provides comprehensive coverage of the requirements of the forthcoming provisions, including: ▸ the identification of leases ▸ the recognition of right-of-use assets and liabilities and their subsequent measurement ▸ treatment of gains and losses ▸ derecognition and presentation and disclosure in the financial statements, ▸ the management of leases within the Prudential Framework. The guidance also covers the transitional arrangements for moving to these new requirements, such as: ▸ the recognition of right-of-use assets and liabilities for leases previously accounted for as operating leases by lessees ▸ the mechanics of making the transition in the 2020/21 financial statements (including the application of transitional provisions and the preparation of relevant disclosure notes).	IFRS 16 - leases introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. Although the new standard will not be included in the CIPFA Code of Practice until 2020/21, work will be necessary to secure information required to enable authorities to fully assess their leasing position and ensure compliance with the standard from 1 April 2020. In particular, full compliance with the revised standard for 2020/21 is likely to require a detailed review of existing lease and other contract documentation prior to 1 April 2020 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 2020 where a lease has previously been accounted for as an operating lease. We will discuss progress made in preparing for the implementation of IFRS 16 - leases with the finance team over the course of our 2019/20 audit.

03 Value for Money Risks

Value for Money

Background

We are required to consider whether the PCC and CC have put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2019/20 this is based on the overall evaluation criterion:

“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

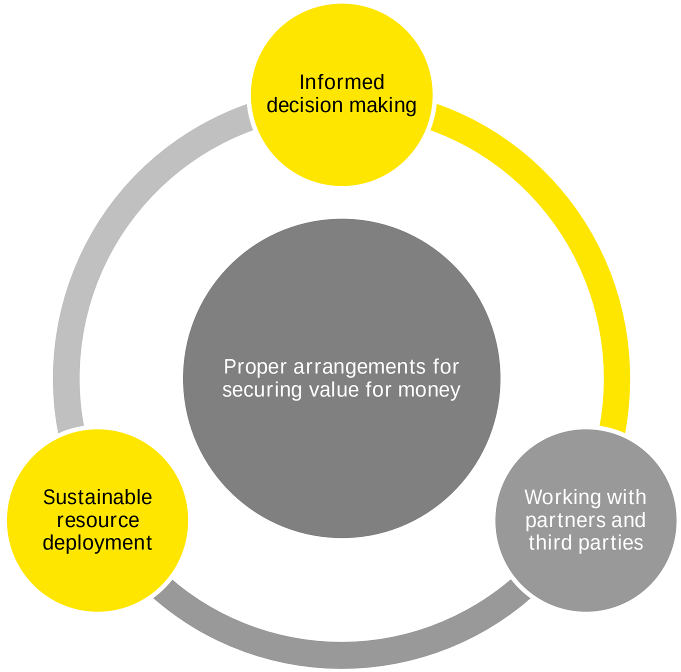
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. In 2019/20 this has included consideration of the steps taken by the PCC and CC to consider medium-term financing and investment.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of the significant risks noted on the following page which we view as relevant to our value for money conclusion.



Value for Money Significant Risks

What is the significant value for money risk?	What arrangements does the risk affect?	Our audit approach
Securing financial resilience Review of the updated of the medium term financial strategy (MTFS) reported to ETAP on 11 December 2019, reported that the previous projected deficit at 2022/23 of £5.7m is forecast to increase to £11.3m. Whilst the transformation programme will continue contribute to deliver savings the risk for the group is that it continues to be reliant on non-recurrent savings to achieve financial balance.	Deploy resources in a sustainable manner	We plan to: • Review the detail of the revised MTFS including the adequacy of the major assumptions; • Assess how the PCC/CC has monitored progress of the transformational change programme to assess that individual work packages have a savings target and what arrangements are in place is the target is at risk of being delivered; and • Review how the PCC has considered the impact of the Local Government settlement for 2020/21 on the MTFS.
Major service configuration In 2017 the PCC entered into a 10 year contract for the outsourcing of IT services to an external provider. A decision has now been taken to exit the contract and which will see the IT service being, for the foreseeable future, run in-house from 1 July 2020. This is a major undertaking and the risk is that the PCC/CC does not have expertise and management capacity to transition the service in order to ensure business as usual with minimal disruption to front line policing and back office services.	Take informed decisions	We plan to: • Review the arrangements as to how the PCC/CC reached the decision to exit the contract and return the service to being run internally. This will include; o Review the assessment made to support the final decision; o Review whether legal advice was obtained and whether there are any subsequent financial liabilities associated with the exit; o Review the PCC/CC project plans to assess whether the services will be in place by 1 July and whether contingency plans are in place; o Review if a detailed risk assessment has been competed including a review of departmental and strategic risk registers; and o Assess whether recurrent and non-current costs have been identified and included in the MTFS.

04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for the PCC Group and PCC Single Entity for 2019/20 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.

Materiality for the Police Pension Fund has been set using 2% of benefits payable of the Police Pension Fund.

Refer to page 7 for the thresholds set.

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

Key definitions

On page 7, 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

Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the 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 2019/20 we plan to follow a 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 will regularly meet with the Head of Internal Audit, and review internal audit plans and the results of their work. 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.

06 Audit team

Audit team

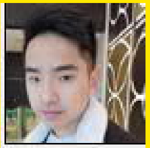
Audit team structure:

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

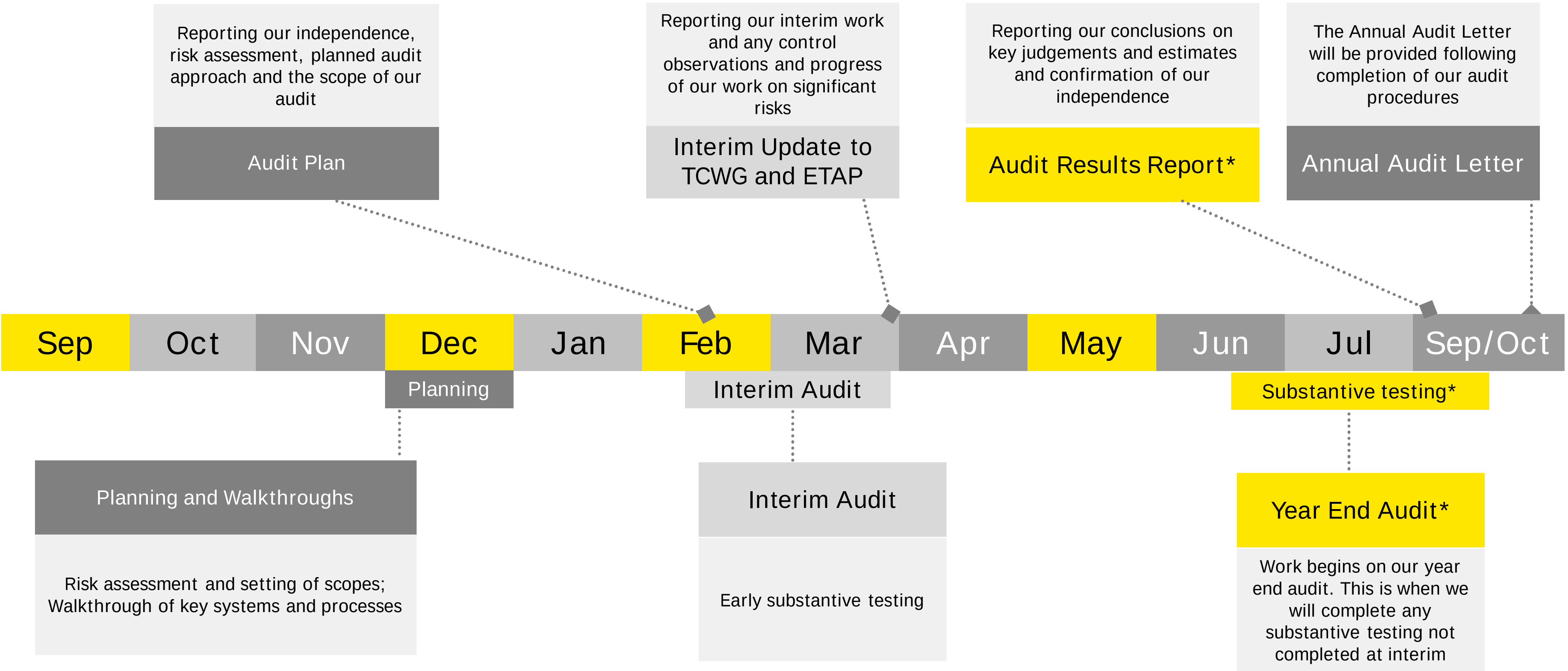
Audit timeline

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 2019/20.

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**
► 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]	► 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

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 1 July 2019 and can be found here:

https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/$FILE/ey-uk-2019-transparency-report.pdf

09 Appendices

Appendix A

Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2019/20 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.

	Planned fee 2019/20	Final Fee 2018/19	Scale Fee 2017/18
	£	£	£
Total PCC Fee – Code work	24,434	24.434 *	31.733
Total CC Fee – Code work	11,550	11,550 *	15,000
Total audit	35,984	35,984 *	46,733
Other non-audit services not covered above	0	0	0
Total fees	35,984	TBC	46,733

All fees exclude VAT.

- We are discussing the final fee for 2018/19 with management regarding the additional procedures undertaken in relation to the following;
  - o McCloud issue for IAS 19 pension disclosures for the LGPS and Police pension fund schemes; and
  - o PPE valuations

The agreed scale variation will be referred to Public Sector Appointments Limited for approval.

The agreed fee presented is 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; and

► 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 (February 2020)
Significant findings from the audit	• 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)

Required communications	What is reported?	Our Reporting to you When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • 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	• 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	• 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	• 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	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • 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 (February 2020) and Audit results report
External confirmations	• 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	• 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	• 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	• 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	• 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 (February 2020) 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.

Appendix D

Additional audit information (continued)

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.