Police and Crime Commissioner and Chief Constable for Lincolnshire Police

Year ended 31 March 2020

Audit planning report

14 January 2020

Building a better working world

Private and Confidential

The Police and Crime Commissioner for and Chief Constable of Lincolnshire Police

Lincolnshire Police
Headquarters
Deepdale Lane
Nettleham
LN2 2LT

14 January 2020

Dear Marc and Bill

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 the Joint Independent Audit Committee 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 with the Committee's service 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 the PCC and CC, Joint Independent Audit Committee and management, 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 27 January 2020 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Helen Henshaw

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 Police and Crime Commissioner for Lincolnshire (PCC) and the Chief Constable of Lincolnshire Police (CC), Joint Independent Audit Committee (JIAC) and management in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the PCC,CC, JIAC and management 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, JIAC and management 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 Police and Crime Commissioner (PCC) and Chief Constable (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
Misstatements due to fraud or error	Fraud risk	No change from 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.
Incorrect capitalisation of revenue expenditure	Fraud risk	No change from prior year	Linking to our fraud risk above we have considered the capitalisation of revenue expenditure on property, plant and equipment as a separate risk, given the extent of the PCC's capital programme. A risks exits that such sums are not accordance with guidance and are inappropriately classified
Valuation of land and buildings	Significant Risk	No change from prior year	The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Group's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. There is a risk that fixed assets may be over/under stated or the associated accounting entries incorrectly posted.
Accounting for Pension Liability	Inherent Risk	No change from prior year	The Group's pension fund deficit is a material estimated balance for both the PCC and CC. Accounting for this scheme 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.

Overview of our 2019/20 audit strategy

Materiality

Planning materiality
£3.8m

Until our planning is complete, we have yet to determine the materiality level for the financial statements of the PCC Group, the subsidiaries (PCC and CC Single entity accounts) and the Police Pension Fund. However, for 2019/20 it is likely to be based on 2% of the gross expenditure on provision of services for the PCC Group and CC Single entity accounts, 2% of the gross assets for the PCC single entity accounts and 2% of benefits payable for the Police Pension Fund. The figure is therefore likely to be in the region of £3.8m for the Group, £1.3m for the PCC, £3.1m for the CC and £0.8m for the Police Pension Fund.

Performance materiality
£2.9m

Performance materiality for the PCC Group, the subsidiaries (PCC and CC Single entity accounts) and the Police Pension Fund is likely to £2.9m, £1m, £2.3m and £0.6m respectively. Performance materiality represents 75% of materiality for the group, subsidiaries and Pension Fund.

Audit differences
£0.2m

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 police pension fund financial statements). The sums are likely to be greater than £190,000 (for the PCC Group), £66,000 (for the PCC single entity), £155,000 (for the CC single entity), and £40,000 (for the Police Pension Fund).

Overview of our 2019/20 audit strategy

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 Lincolnshire 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 Lincolnshire, 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 is familiar with the Force having been involved with some aspects of audit delivery in 2018/19.

Andy Reid (FCA) - Senior Manager
Andy has over 25 years experience of public sector audit. He joined EY in November 2019, having previously worked for BDO, Grant Thornton and the Audit Commission.

2019/20 delivery timetable

Audit delivery timetable

As you are aware, for 2018/19 we were unable to complete our audit in line with the timetable as originally communicated to and agreed with you.

For 2019/20 we have commenced discussions with your finance team around the proposed timings and based on the discussions held to date have agreed the following proposed key dates:

- 14th May – first draft of accounts complete
- 22nd May – JIAC review draft accounts
- 1st June – Publication of draft accounts

- 29th June – commence year end audit
- 31st July – Issue Audit Results Report

- 14th August – revised final accounts completed
- September – JIAC review accounts

02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) 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.

	What is the risk?	What will we do?
Misstatements due to fraud or error *	The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK and Ireland) 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. For the Group and PCC Single Entity, we have identified the potential for the incorrect classification of revenue spend as capital as well as revenue expenditure under statute, if material as a particular area where there is a risk of fraud or error. Under ISA240 there is also a presumed risk that revenue may be misstated due to improper recognition of revenue. 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 consider this risk is not material in relation to our audit.	We will undertake our standard procedures to address fraud risk, which include: ➢ Identifying fraud risks during the planning stages. ➢ Inquiring of management about risks of fraud and the controls put in place to address those risks. ➢ Understanding the oversight given by those charged with governance of management's processes over fraud. ➢ Considering the effectiveness of management's controls designed to address the risk of fraud. ➢ Determining an appropriate strategy to address those identified risks of fraud. ➢ Developing a testing approach to journal entries. ➢ Assessing accounting estimates for evidence of management bias. ➢ Evaluating the business rationale for significant unusual transactions. ➢ Ensuring financial performance targets are not materially misstated. ➢ Performing appropriate tests to assess whether provisions and manual accruals and other creditors are both complete and fairly stated. ➢ Performing mandatory procedures regardless of specifically identified fraud risks.

Our response to significant risks (continued)

***Risk of fraud in revenue recognition - Incorrect capitalisation of Revenue Expenditure and Revenue Expenditure Financed through Capital under Statute**

Misstatements that occur in relation to this risk may impact the following significant accounts:

PPE Additions – Valuation (£11,990k)

CIES Net Cost of Services – Expenditure – Completeness (£41.4m)

Note 17: Capital Expenditure and Financing – Presentation and Disclosure (£39,820k)

Figures quoted above are from the 2018/19 financial statements

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.

This could materialize as a result of capitalizing expenditure on revenue items or miss-classifying Revenue Expenditure Financed through Capital under Statute (REFCUS)

What will we do?

Should capital expenditure and REFCUS be material to the financial statements in 2019/20 , we will undertake additional procedures to address the specific risk we have identified, which will include:

- Review revenue recognition accounting policies to ensure the treatment is consistent with prior year
- Discuss any changes to accounting policies with management prior to conducting any testing
- Sample testing additions to property, plant and equipment to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised; and
- Sample test expenditure classed as REFCUS, ensuring that it meets the criteria for this treatment.

Our response to significant risks (continued)

Valuation of Land & Buildings	What is the risk?	What will we do?
Misstatements that occur in relation to this risk may impact the following significant accounts: Property Plant & Equipment (Valuation) £39,559k Unusable Reserves: (Valuation & P&D) Revaluation Reserve - £5,017k Capital Adjustment Account - £(2,609k) Figures quoted above are from the 2018/19 financial statements	The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Group accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. .	We will: ▸ Consider the work performed by the Group and PCC valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; ▸ Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre); ▸ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code of Practice. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; ▸ 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; ▸ Test accounting entries have been correctly processed in the financial statements; and ▸ Make use of our valuation experts to review any change in valuation methodology and as deemed appropriate for a sample of asset valuations review the underlying calculations and assumptions in detail.

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?	What will we do?
Pension Liability Valuation The Local Authority Accounting Code of Practice and IAS19 require the CC to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Lincolnshire County Council. The PCC must also do similar in respect of the Police Pension Fund. The PCC and CC's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the respective balance sheets of the PCC and CC. At 31 March 2019 this totalled £0.02 million and £1.457 million respectively. The information disclosed is based on the IAS 19 report issued to the PCC and CC by the actuary 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.	We will: ▸ Liaise with the auditors of Lincolnshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Lincolnshire Police Force; ▸ Assess the work of the LGPS Pension Fund and the Police Pension actuary (Hymans Robertson) 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; and ▸ Review and test the accounting entries and disclosures made within the PCC and CC's financial statements in relation to IAS19.

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.

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
Going Concern Compliance with ISA 570 This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the PCC will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee. The CIPFA Guidance Notes for Practitioners 2019/20 accounts states 'The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.' 'If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis.'	The revised standard requires: ▸ auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias; ▸ greater work for us to challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtained and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Authority obtained through our audit, which will include additional specific risk assessment considerations which go beyond the current requirements; ▸ improved transparency with a new reporting requirement for public interest entities, listed and large private companies to provide a clear, positive conclusion on whether management's assessment is appropriate, and to set out the work we have done in this respect. While the PCC and CC are not one of the three entity types listed, we will ensure compliance with any updated reporting requirements; ▸ a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and ▸ necessary consideration regarding the appropriateness of financial statement disclosures around going concern. The revised standard extends requirements to report to regulators where we have concerns about going concern. We will discuss the detailed implications of the new standard with finance staff during 2019/20 ahead of its application for 2020/21.

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.

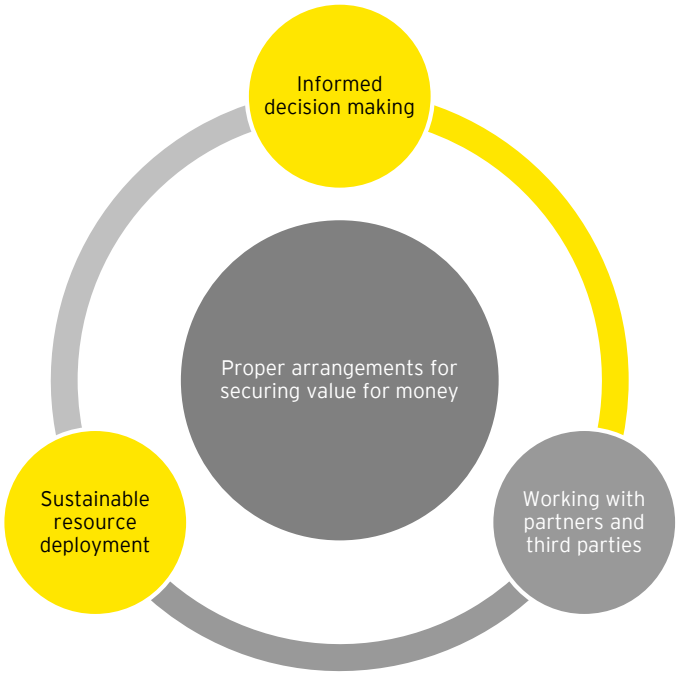
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

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 & CC to consider the impact of Brexit on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we anticipate that Authorities will be carrying out scenario planning and that Brexit and its impact will feature on operational risk registers.

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 Risks

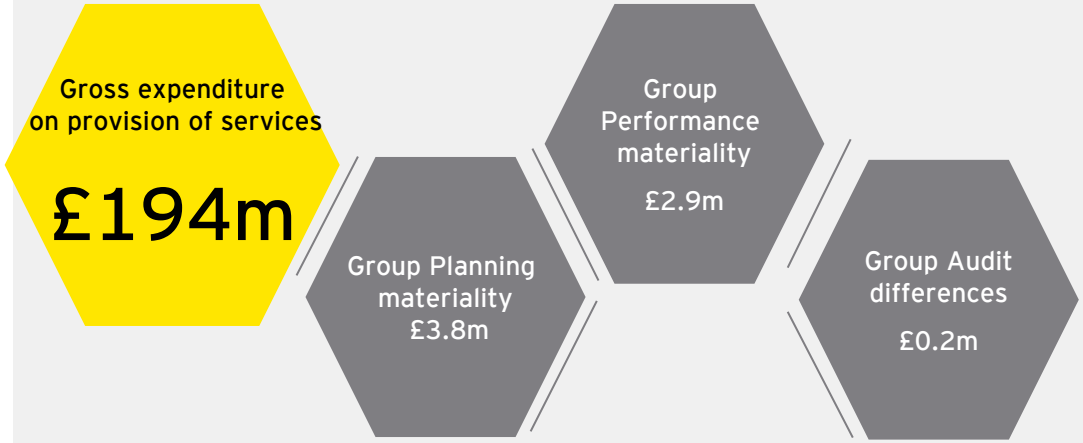
What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
The latest Medium Term Financial Plan (MTFP) shows there is a gap between funding and expenditure in years 2019/20-2021/22, with savings of £3.2m, £6.7m & £7.2m respectively required to achieve a balanced budget. Savings plans have yet to be fully developed to address the gap. Given the level of the savings required this presents a risk to the PCC's and CC's financial position.	Deploy resources in a sustainable manner	We will: ▸ Monitor the financial position for the remainder of 2019/20, including delivery of savings; ▸ Review the arrangements that the PCC & CC have put in place for identifying medium term savings requirement and development of its budget and MTFP; ▸ Obtain supporting information in respect of the key savings; and ▸ Undertake a sensitivity analysis of past and current activity on future reserves.
Work by your predecessor external auditors and Internal Audit has highlighted a number of staff appointments and payments which have not followed recruitment and financial procedures. Whilst the amounts are not material, these may indicate a wider potential risk around governance and control.	Take informed decisions	We will: ▸ Review the work of Internal Audit and the newly formed Governance Committee and actions to address identified issues; and ▸ Discuss with the PCC, CC and management the specific instances raised and assess justification for not following procedures.

04 Audit materiality

Materiality

Materiality

We have yet to finalise our planning procedures for 2019/20. However, based on the results of our 2018/19 audit our initial materiality levels are likely to be set at the following levels for 2019/20. Materiality for the PCC Group and CC Single Entity for 2019/20 is likely to set at £3.8m & £3.1m respectively. This represents 2% of the PCC Group and CC Single Entity's gross expenditure on provision of services. Materiality for the PCC Single Entity is likely to be set at 2% of the PCC Single Entity's gross assets at £1.3m. Materiality for the Police Pension Fund is likely to be set at 2% of benefits payable of the Police Pension Fund at £0.8m. Materiality will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix D.



We request that the PCC and CC confirm their understanding of, and agreement to, these materiality and reporting levels.

Key definitions

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. Pending completion of our planning procedures, Following a review of the results of our 2018/19 audit we are likely to set performance materiality for 2019/20 the PCC Group, Single Entity Accounts & Police Pension Fund at £2.9m, £1m, £2.3m, and £0.6m respectively which represent 75% of planning materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the primary statements (comprehensive income and expenditure statement, balance sheet, and police pension fund financial statements). The sums are likely to be greater than £190,000 (for the PCC Group), £66,000 (for the PCC single entity), £155,000 (for the CC single entity), and £40,000 (for the Police Pension Fund).

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 joint independent audit committee, or are important from a qualitative perspective.

Specific materiality – We are likely to set a materiality of the audit difference threshold at £50,000 for related party transactions and members' allowances. For officers remuneration including exit packages we will apply materiality of £5,000 in line with bandings. This reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to these disclosures.

05 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.

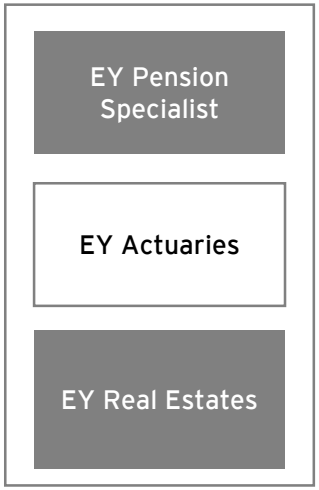
We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Joint Independent Audit Committee.

Internal audit:
We will review internal audit plans and the results of their work. We will reflect 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:



Working together with the PCC and CC

We are working together with officers to establish strong communication and processes for the 2019/20 audit.

We will continue to keep our audit approach under review to streamline it where possible.

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 may be required to provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	EY Real Estates Team
Pensions disclosure	EY Pensions Advisory Team

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.

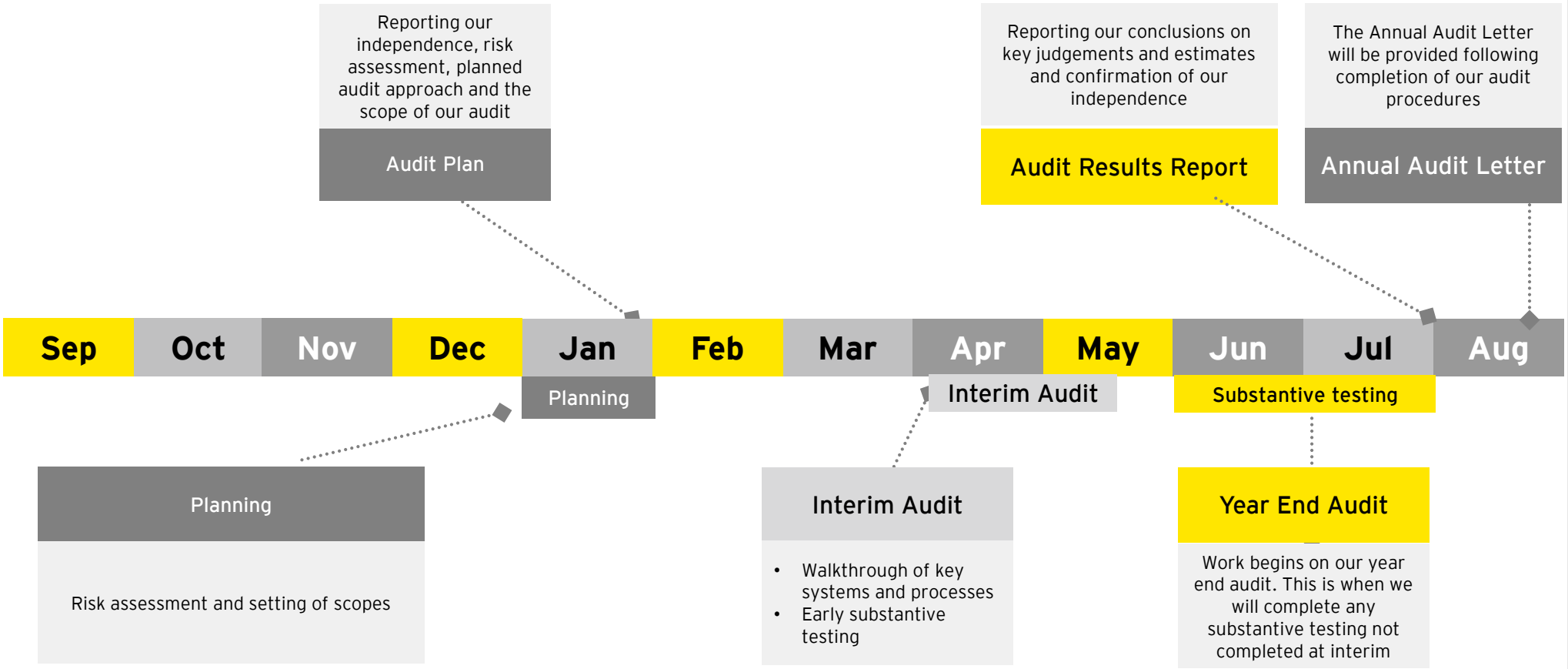
07 Audit timeline

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 with the PCC and CC and senior management as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.



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 Neil Harris, 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.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, we are not undertaking any non-audit work on behalf of the Group. Therefore no additional safeguards are required.

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.

Relationships, services and related threats and safeguards

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.

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 2019
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/en_uk/who-we-are/transparency-report-2019

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.

A breakdown of our fees is shown in the table below.

	Planned fee 2019/20	Scale fee 2019/20	Scale Fee 2018/19
	£	£	£
Total PCC Fee – Code work: **Note 1**	22,554	22,554	22,554
Total CC Fee – Code work **Note 1**	11,550	11,550	11,550
Total audit fees	34,104	34,104	34,104

All fees exclude VAT

(1) For 19/20 the scale fee may be impacted by a range of factors (see page 7), which we will update the committee on, as the audit progresses.

In addition, we are driving greater innovation in the audit through the use of technology. The significant investment costs in this global technology continue to rise as we seek to provide enhanced assurance and insight in the audit.

(2) The 18/19 work has just been completed and a final fee will be determined shortly. For 19/20 the planned fee represents the base fee, i.e. not including any extended testing.

Note 1:
The planned fees for 2019/20 may be subject to a scale fee variation due to increases in the scope of the audit as summarised below:

- The areas of focus highlighted in the Audit Plan; and
- The audit coverage of the financial resilience and governance risks relevant to our value for money conclusion.

In addition, 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. Any variations to the audit fee need to be approved by PSAA.

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 – January 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 – July 2020

Required communications with the PCC and CC (continued)

		Our Reporting to you
Required communications	**What is reported?**	**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 – July 2020
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 – July 2020
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 – July 2020
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 – July 2020

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 – January 2020 Audit results report – July 2020
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report – July 2020
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 – July 2020
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Audit results report – July 2020

Required communications with the PCC and CC (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Group audits	▸ An overview of the type of work to be performed on the financial information of the components ▸ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▸ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▸ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▸ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements	Audit planning report – January 2020 Audit results report – July 2020
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report – July 2020
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report – July 2020
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 – July 2020
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 – January 2020 Audit results report – July 2020

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 Joint Independent Audit Committee reporting appropriately addresses matters communicated by us to the Joint Independent Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and ▸ Maintaining auditor independence.

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.