

Audit Strategy Memorandum

Office of the Police and Crime
Commissioner for Cleveland and the
Chief Constable for Cleveland

Year ending 31 March 2021



Contents

- 01** Engagement and responsibilities summary
- 02** Your audit engagement team
- 03** Audit scope, approach and timeline
- 04** Significant risks and other key judgement areas
- 05** Value for Money
- 06** Fees for audit and other services
- 07** Our commitment to independence
- 08** Materiality and misstatements

Appendix – Key communication points

This document is to be regarded as confidential to the Office of the Police and Crime Commissioner for Cleveland and Chief Constable for Cleveland. It has been prepared for the sole use of the Office of the Police and Crime Commissioner for Cleveland and Chief Constable for Cleveland and the Joint Independent Audit Committee. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.



Lisa Oldroyd, Acting Office of the Police and Crime Commissioner for Cleveland
Richard Lewis, Chief Constable for Cleveland

Cleveland Police
Police Headquarters
Community Safety Hub
1 Cliffland Way
Middlesbrough
TS9 9GL

3 March 2021

Dear Sir / Madam

The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

Audit Strategy Memorandum – Year ending 31 March 2021

We are pleased to present our Audit Strategy Memorandum for the Office of the Police and Crime Commissioner for Cleveland and Chief Constable for Cleveland for the year ending 31 March 2021. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 7 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing the Office of the Police and Crime Commissioner for Cleveland and Chief Constable for Cleveland which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit,

Client service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 07896 684 771.

Gavin Barker

Gavin Barker
Mazars LLP

Mazars LLP – Salvus House, Aykley Heads, Durham. DH1 5TS

Tel: 0191 383 6300 – www.mazars.co.uk

Mazars LLP is the UK firm of Mazars, an integrated international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at Tower Bridge House, St Katharine's Way, London E1W 1DD.

We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861. VAT number: 839 8356 73

01

Section 01:

**Engagement and
responsibilities summary**

1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of the Office of the Police and Crime Commissioner for Cleveland (PCC) and Chief Constable for Cleveland (CC) for the year to 31 March 2021. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.



Audit opinion

We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management or the PCC and CC for Cleveland as those charged with governance, of their responsibilities.



Going concern

The PCC and CC are required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. The Chief Finance Officer is responsible for the assessment of whether it is appropriate for the PCC and CC to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence, and conclude on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements and the adequacy of disclosures made.



Value for money

We are also responsible for reaching a conclusion on the arrangements that the PCC and CC has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.



Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the PCC and CC and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom



Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.



Reporting to the NAO

We report to the NAO on the consistency of the PCC and Group's financial statements with its Whole of Government Accounts (WGA) submission. We do this by issuing an assurance certificate which confirms that the PCC and Group are below the threshold set by the NAO.

Engagement and responsibilities summary

Your audit engagement team

Audit scope, approach and timeline

Significant risks and key judgement areas

Value for money

Fees for audit and other services

Our commitment to independence

Materiality and misstatements

Appendices

02

Section 02:

Your audit engagement team

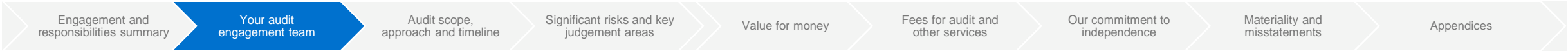
2. Your audit engagement team



Gavin Barker
Director and Engagement Lead
gavin.barker@mazars.co.uk
07896 684 771



Campbell Dearden
Manager
campbell.dearden@mazars.co.uk
0788 128 3348



03

Section 03:

Audit scope, approach and timeline

3. Audit scope, approach and timeline

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

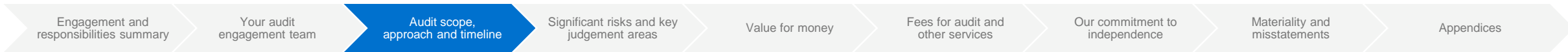
Audit approach

Our audit approach is a risk based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise: tests of details (of classes of transactions, account balances, and disclosures); and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram on the next page outlines the procedures we perform at the different stages of the audit.



3. Audit scope, approach and timeline

Planning February to March 2021

- Planning visit and developing our understanding of the PCC and CC
- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review
- Documenting systems and controls
- Performing walkthroughs

Completion September 2021

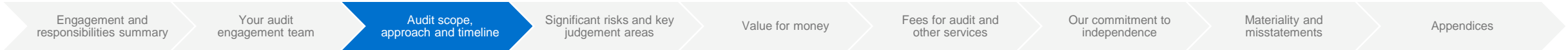
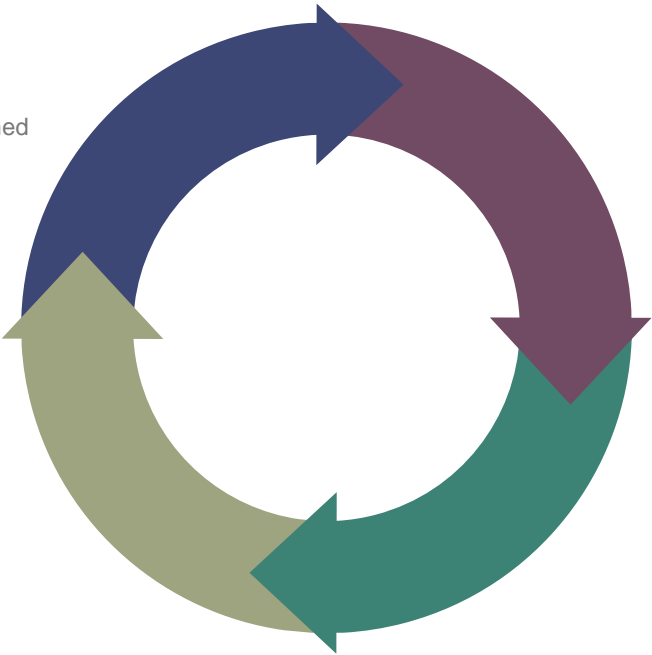
- Final review and disclosure checklist of financial statements
- Final Director review
- Agreeing content of letter of representation
- Reporting to the Joint Independent Audit Committee
- Reviewing subsequent events
- Signing the auditor's report

Interim March to April 2021

- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

Fieldwork June to September 2021

- Receiving and reviewing draft financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Communicating progress and issues
- Clearance meeting



3. Audit scope, approach and timeline

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will liaise with internal audit to consider the progress and findings of their work prior to the commencement of any controls testing.

If we decide to place reliance on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Management’s and our experts

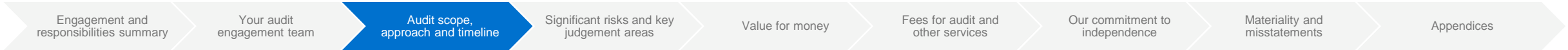
Management makes use of experts in specific areas when preparing the PCC and CC’s financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management’s expert	Our expert
Defined benefit liability	Government Actuary’s Department (GAD) for police officers; and AON Hewitt Limited for all other employees	NAO’s Consulting Actuary (PWC)
Property, plant and equipment valuation	Valuer - Sanderson Wetherall	We will carry out appropriate testing and consider available third party information. See the significant risks section.

Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the PCC and CC that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisation used by the PCC and CC and our planned audit approach.

Items of account	Service organisation	Audit approach
Back office services for all support functions. This includes all financial statements, control room functions, IT and HR. Note that this service was brought back in-house to Cleveland Police on 1 October 2020.	Sopra Steria	We have full access to Sopra Steria systems, therefore no additional procedures are required.
Payment of pension lump sums and monthly pension payroll to retirees under the Police Pension schemes.	XPS	Walkthrough of transactions as part of planning work. Testing of pensions at the year-end.



04

Section 04:

**Significant risks and other key
judgement areas**

4. Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

Significant risk

A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

Enhanced risk

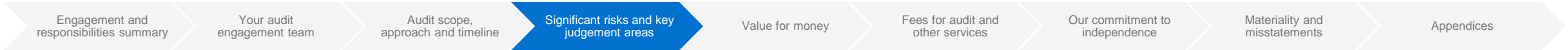
An enhanced risk is an area of higher assessed risk of material misstatement ('RMM') at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

These should include all areas of judgement and significant estimation uncertainty reported by the Accounting Officer in the financial statements, which would be expected to give rise to enhanced audit risks as relevant.

Standard risk

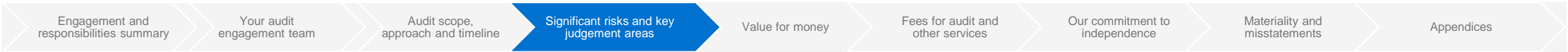
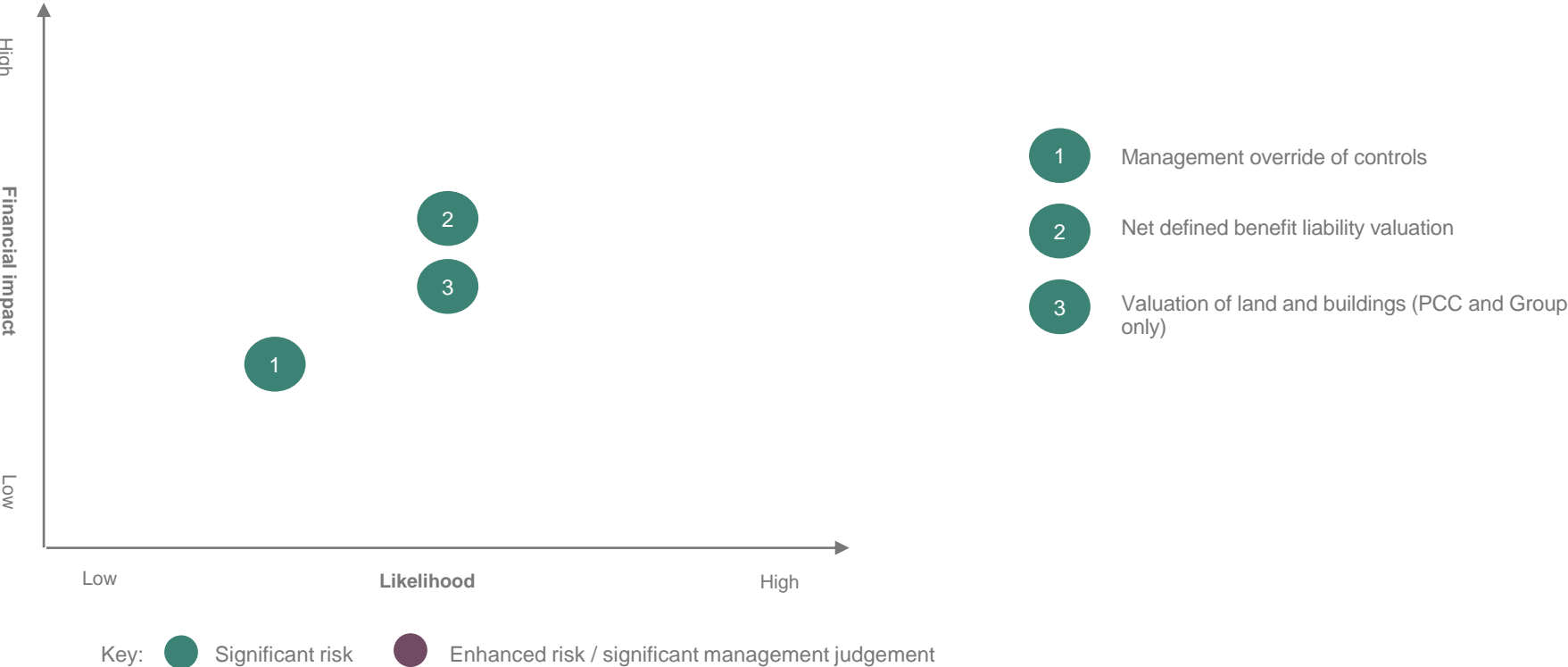
This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.



4. Significant risks and other key judgement areas

Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the PCC and Group and the CC. We have summarised our audit response to these risks on the next page.

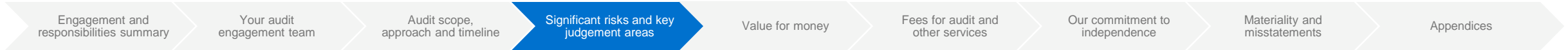


4. Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy







We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Joint Independent Audit Committee.

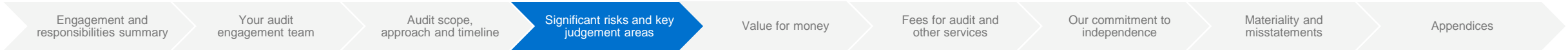
	Description	Fraud	Error	Judgement	Planned response
1	<p>Management override of controls</p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	●	○	○	<p>We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</p> <p>We will use computer audit analytical techniques (CAAT's) to identify and test journals with specific risk characteristics.</p>



4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	<p>Net defined benefit liability valuation</p> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and include estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>				<p>We will discuss with key contacts any significant changes to the pension estimates.</p> <p>In addition to our standard programme of work in this area, we will evaluate the management controls you have in place to assess the reasonableness of the figures provided by the Actuary and consider the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally.</p> <p>We will review the appropriateness of the key assumptions included within the valuations, compare them to expected ranges and review the methodology applied in the valuation.</p> <p>We will consider the adequacy of disclosures in the financial statements.</p> <p>We will also seek assurance from the auditor of the Teesside Pension Fund.</p>
3	<p>Valuation of land and buildings (PCC and Group only)</p> <p>The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the PCC's land and buildings. Although the PCC and Group use a valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of land and buildings due to the significant judgements and number of variables involved in providing revaluations. We have therefore identified the valuation of land and buildings to be an area of significant risk.</p>				<p>We plan to address this risk by considering the PCC's arrangements for ensuring that land and building values are reasonable.</p> <p>We will consider evidence of valuation trends to assess the reasonableness of the valuations provided by the external valuer. We will also assess the competence, skills and experience of the valuer.</p> <p>We plan to discuss methods used with the valuer and test valuations. We will consider indices provided by third parties to confirm the assets not revalued are unlikely to have materially changed in value. We will test a sample of revaluations in year to valuation reports and supporting calculation sheets and ensure the calculations are correct and source data agrees with floor plans where appropriate.</p>



05

Section 05: **Value for Money**

5. Value for Money

The framework for Value for Money work

We are required to form a view as to whether the PCC and CC have made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our view, and sets out the overall criterion and sub-criteria that we are required to consider.

The new Code of Audit Practice (the Code) has changed the way in which we report our findings in relation to Value for Money (VFM) arrangements from 2020/21. Whilst we are still required to be satisfied that the PCC and CC have proper arrangements in place, we will now report by exception in our auditor's report where we have identified significant weakness in those arrangements. This is a significant change to the requirements under the previous Code which required us to give a conclusion on the PCC and CC's arrangements as part of our auditor's report.

Under the new Code, the key output of our work on VFM arrangements will be a commentary on those arrangements which will form part of the Auditor's Annual Report.

Specified reporting criteria

The Code requires us to structure our commentary to report under three specified criteria:

- 1. **Financial sustainability** – how the PCC and CC plan and manage its resources to ensure it can continue to deliver its services
- 2. **Governance** – how the PCC and CC ensure that it makes informed decisions and properly manages its risks
- 3. **Improving economy, efficiency and effectiveness** – how the PCC and CC use information about its costs and performance to improve the way it manages and delivers its services

Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the PCC and CC's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to the PCC and CC and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

Planning and risk assessment	Obtaining an understanding of the PCC and CC's arrangements for each specified reporting criteria. Relevant information sources will include: <ul style="list-style-type: none">• NAO guidance and supporting information• Information from internal and external sources including regulators• Knowledge from previous audits and other audit work undertaken in the year• Interviews and discussions with staff and members
Additional risk based procedures and evaluation	Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.
Reporting	We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor's Annual Report. Our commentary will also highlight: <ul style="list-style-type: none">• Significant weaknesses identified and our recommendations for improvement• Emerging issues or other matters that do not represent significant weaknesses but still require attention from the PCC and CC.



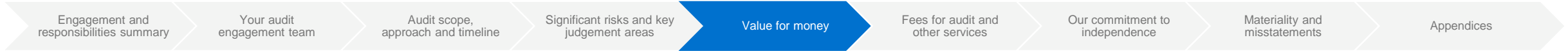
5. Value for Money

Identified risks of significant weaknesses in arrangements

The NAO’s guidance requires us to carry out work at the planning stage to understand the PCC and CC’s arrangements and to identify risks that significant weaknesses in arrangements may exist.

Although we have not fully completed our planning and risk assessment work, the table below outlines the audit risks of significant weaknesses in arrangements that we have identified to date. We will report any further identified risks to the PCC and CC and Joint Independent Audit Committee on completion of our planning and risk identification work.

	Risk of significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Planned work
1	<p>HMIC FRS Inspections</p> <p>The Force is subject to an extensive inspection regime by Her Majesty’s Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS). The most recent report was published in September 2019 with an overall assessment that Cleveland Police’s performance is inadequate and has declined considerably since its last inspection. The Force has therefore been placed into their national oversight process.</p> <p>Although we recognise that the CC has started to address many of these concerns, it will take time to secure the improvements needed, embed them into the normal ways of working within Cleveland Police and ensure that the changes are sustainable.</p> <p>Therefore, we consider this to be a risk.</p>	●	●	●	We will address this risk by considering the progress made by Cleveland Police to address the concerns of the HMIC FRS.



06

Section 06:

Fees for audit and other services

6. Fees for audit and other services

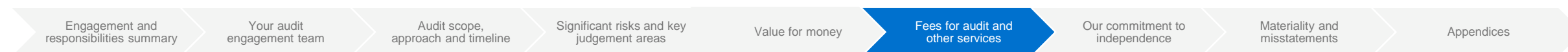
Fees for work as the PCC (and Group) and CC's appointed auditor

In the Annual Audit Letter that we will present to the Joint Independent Audit Committee in March 2021, we explain that due to increased regulatory pressures there will be additional recurring fees of £5,242 for the PCC and £2,360 for the CC as well as one-off fees of £2,724 for the PCC and £2,254 for the CC in respect of extra work arising from the COVID-19 pandemic and pensions in 2019/20. We are still awaiting approval from Public Sector Audit Appointments Limited for these fees, but we have included them in the table below for transparency.

In Section 5 we explained that we are still completing our planning and risk assessment in respect of the VFM Conclusion. We will communicate any fee implications to you when this work is complete.

Area of work	2020/21 Proposed Fee	2019/20 Actual Fee
Delivery of audit work under the NAO Code of Audit Practice for the PCC	26,045	26,045
Recurring increases in the base audit fee arising from regulatory pressures for the PCC	5,242	5,242
One-off fee increases for 2019/20 specific issues	N/A	2,724
Total for the PCC	31,287	34,011
Delivery of audit work under the NAO Code of Audit Practice for the CC	11,550	11,550
Recurring increases in the base audit fee arising from regulatory pressures for the CC	2,360	2,360
One-off fee increases for 2019/20 specific issues	N/A	2,254
Total for the CC	13,910	16,164
Total for the PCC and CC	45,197*	50,175

* The revised Code of Audit Practice is likely to lead to additional audit work to support the new value for money conclusion and the changes in reporting requirements. It is currently unclear exactly what impact this will have on the work required and fees. We have consequently not reflected any impact in the proposed fee. We will update management, the PCC and CC and the Joint Independent Audit Committee as the position is clarified.



07

Section 07:

Our commitment to independence

7. Our commitment to independence

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the FRC's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

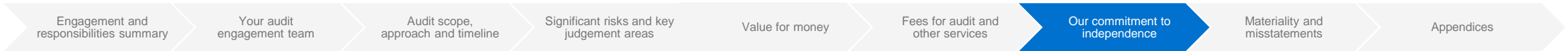
- All partners and staff are required to complete an annual independence declaration;
- All new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- Rotation policies covering audit engagement partners and other key members of the audit team; and
- Use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Gavin Barker in the first instance.

Prior to the provision of any non-audit services Gavin Barker will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

No threats to our independence have been identified.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.



08

Section 08:

Materiality and other misstatements

8. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Initial threshold Group £'000s	Initial threshold PCC £'000s	Initial threshold CC £'000s
Overall materiality	4,223	3,002	3,877
Performance materiality	3,379	2,401	3,101
Trivial threshold for errors to be reported to the Joint Independent Audit Committee.	127	90	116

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- Have a reasonable knowledge of business, economic activities and accounts;
- Have a willingness to study the information in the financial statements with reasonable diligence;
- Understand that financial statements are prepared, presented and audited to levels of materiality;
- Recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- Will make reasonable economic decisions on the basis of the information in the financial statements.

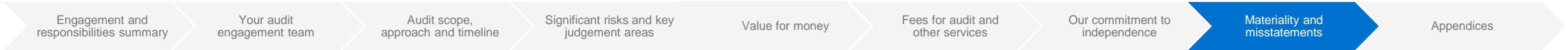
We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of 2% of gross expenditure. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to the Joint Independent Audit Committee. We consider that gross expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.



8. Materiality and misstatements

Materiality (continued)

We expect to set a materiality threshold at 2% of gross revenue expenditure at the surplus / deficit level after excluding exceptional items and revaluation and impairment gains and losses. Based on the 2019/20 audited financial statements we anticipate the overall materiality for the year ending 31 March 2021 to be in the region of £4.223m for the Group (£4.480m in the prior year), £3.002m for the PCC (£3.021m in the prior year) and £3.877m for the CC (£3.922m in the prior year).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 80% of overall materiality as performance materiality.

Misstatements

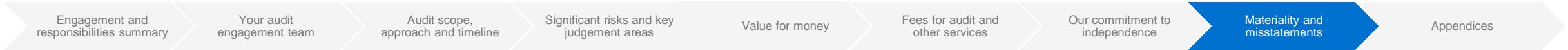
We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Joint Independent Audit

Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £127,000 for the Group, £90,000 for the PCC and £116,000 for the CC based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Gavin Barker.

Reporting to the Joint Independent Audit Committee

The following three types of audit differences will be presented to the Joint Independent Audit Committee.

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).





Appendix: Key communication points

Appendix: Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) ‘Communication with Those Charged with Governance’ and ISA 265 (UK) ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present the following reports:

- Our Audit Strategy Memorandum;
- Our Audit Completion Report; and
- Auditor’s Annual Report.

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

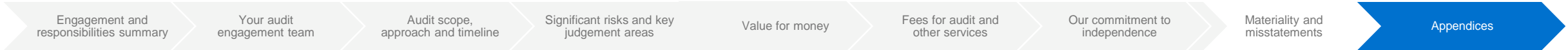
Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;

- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

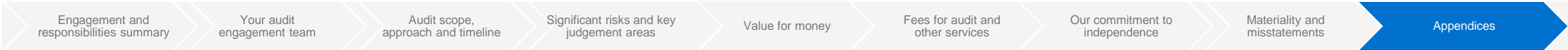
- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.



Appendix: Key communication points

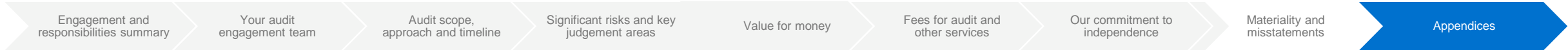
ISA (UK) 260 ‘Communication with Those Charged with Governance’, ISA (UK) 265 ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
With respect to misstatements: <ul style="list-style-type: none">• Uncorrected misstatements and their effect on our audit opinion;• The effect of uncorrected misstatements related to prior periods;• A request that any uncorrected misstatement is corrected; and• In writing, corrected misstatements that are significant.	Audit Completion Report
With respect to fraud communications: <ul style="list-style-type: none">• Enquiries of the Joint Independent Audit Committee to determine whether they have a 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 fraud may exist; and• A discussion of any other matters related to fraud.	Audit Completion Report and discussion at the Joint Independent Audit Committee Audit Planning and Clearance meetings



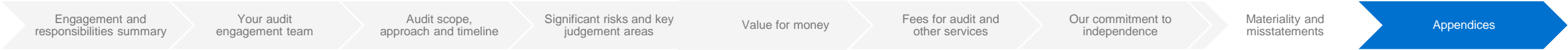
Appendix: Key communication points

Required communication	Where addressed
<p>Significant matters arising during the audit in connection with the entity’s related parties including, when applicable:</p> <ul style="list-style-type: none"> • Non-disclosure by management; • Inappropriate authorisation and approval of transactions; • Disagreement over disclosures; • Non-compliance with laws and regulations; and • Difficulty in identifying the party that ultimately controls the entity. 	Audit Completion Report
<p>Significant findings from the audit including:</p> <ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • Significant difficulties, if any, encountered during the audit; • Significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • Written representations that we are seeking; • Expected modifications to the audit report; and • Other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Joint Independent Audit Committee in the context of fulfilling their responsibilities. 	Audit Completion Report
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report



Appendix: Key communication points

Required communication	Where addressed
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Joint Independent Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that Joint Independent Audit Committee may be aware of.	Audit Completion Report and Joint Independent Audit Committee meetings
With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> Whether the events or conditions constitute a material uncertainty; Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and The adequacy of related disclosures in the financial statements. 	Audit Completion Report
Reporting on the valuation methods applied to the various items in the annual financial statements including any impact of changes of such methods	Audit Completion Report
Explanation of the scope of consolidation and the exclusion criteria applied by the entity to the non-consolidated entities, if any, and whether those criteria applied are in accordance with the relevant financial reporting framework.	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Where applicable, identification of any audit work performed by component auditors in relation to the audit of the consolidated financial statements other than by Mazars' member firms	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Indication of whether all requested explanations and documents were provided by the entity	Audit Completion Report



Gavin Barker, Director – Public Services

gavin.barker@mazars.co.uk

Mazars

The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.