

# Audit Progress Report

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

March 2023



1. Progress update on our audits
2. National publications

# 01

## Section 01: **Audit Progress**

# Audit progress

## **Purpose of this report**

This report provides the Joint Independent Audit Committee (JIAC) with an update on the external audit work for the 2020/21, 2021/22 and 2022/23 financial years (Section 1) as well as some recent relevant reports and publications for your information (Section 2).

## **2020/21 audit**

We received group instructions from the National Audit Office (NAO) allowing us to complete our work on 2020/21 Whole of Government accounts and we issued an assurance statement to the National Audit Office on 15 December 2022. However, we are unable to issue our certificate formally closing the 2020/21 audit because the NAO have not yet responded to our query about whether the Group has been selected for additional procedures.

When we receive confirmation on this, we will be able to issue the audit certificate and finally bring the 2020/21 audit to a conclusion.

## **2021/22 audit**

### **Audit opinion**

We reported to the JIAC on 15 December 2022 that we were unable to complete our audit of the 2021/22 financial statements and issue our audit opinion because we had not received the pension fund assurance letter from the auditor of the Teesside Pension Fund. Unfortunately, we have still not received the assurance letter. As a result of this delay, another issue has now arisen in relation to pension fund disclosures. The outcome of this is unclear and we will be able to update Members of the Committee at the meeting on 30 March 2023.

### **Value for Money arrangements**

We advised the JIAC on 15 December 2022 that we would await the reporting of the latest HMICFRS (His Majesty's Inspectorate of Constabulary and Fire & Rescue Services) report before issuing our commentary on VFM arrangements.

The issue of the HMICFRS report was delayed and it was published on 17 March 2023. Based on our initial reading of the report, it is positive about the progress made by the Force and the direction of travel, it includes a different set of ratings to previous reports and there has been a reduction in the number of areas assessed as Inadequate.

# Audit progress

## 2021/22 audit (continued)

Previously we had anticipated that the significant weaknesses and recommendations we would report would be the same as for our 2020/21 report, and we would reflect any improvement in the text. Although not issued until March 2023, the HMICFRS report is labelled as the 2021/22 Peel Inspection, and clearly included assessment work during that year. Our initial view is that this is the outcome for 2021/22 and we need to reflect this in our own report for the 2021/22 audit year, which would mean reflecting the improvements and reframing our significant weaknesses and recommendations so that they are focused on the two remaining areas assessed as Inadequate. We also believe that we need to reflect the further causes of concern from HMICFRS in the specific custody suites report as a significant weakness with a recommendation. This is because the custody suites report was issued during 2021/22.

There has been insufficient time for us to prepare our report in time for the 30 March 2023 meeting, but we would anticipate it being finalised in time for the next meeting of the JIAC.

## Whole of Government Accounts

We received group instructions from the National Audit Office for the 2021/22 in February 2023, but again the instructions suggest additional procedures will be required at a sample of authorities, and details of these authorities and procedures remains outstanding at the time of drafting this letter.

## 2022/23 audit

We are updating our risk assessment and our planning for the 2022/23 audit. We will present our formal Audit Strategy Memorandum to a future meeting of the JIAC.

At this stage we do not anticipate any significant changes in the scope of the audit opinion work, the approach or timeline. However, we wish to draw your attention to the requirements of the revised ISA 315 which applies to the Commissioner and Chief Constable's 2022/23 audits and underpins the work we are required to carry out to identify and assess the risks of material misstatement. This enhanced standard will require additional audit work and it is likely that we will need additional information and responses from the Commissioner and Chief Constable's management beyond those asked at previous audits. We have included a short summary of the key points from the revised ISA315 within this report and we will continue to liaise with management on the information required and any impact on our risk assessment.

The NAO has confirmed that there are no changes to their requirements for the auditor's value for money commentary on the Commissioner and Chief Constable's arrangements for 2022/23. The 2022/23 audit will be the last one under the current contract with Public Sector Audit Appointments Limited (PSAA). We are pleased to confirm that PSAA have recently appointed us as your auditors for a further five years, commencing with the 2023/24 audit.

# Revised ISA 315

**Revised auditing standard for Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)**

*(Effective for audits of financial statements for periods beginning on or after December 15, 2021)*

ISA (UK) 315 (Revised 2019) introduces major changes to the auditor’s risk identification and assessment approach, which are intended to drive a more focused response from auditors undertaking work to obtain sufficient appropriate audit evidence to address the risks of material misstatement. The main changes relevant to your audit are outlined below:

- Enhanced risk identification and assessment**

The standard has enhanced the requirements for the auditor to understand the entity and its environment as well as the applicable financial reporting framework to identify inherent risk factors that drive risk identification and assessment (subjectivity, complexity, uncertainty, change, and susceptibility to misstatement due to management bias or fraud). Using these factors, the auditor assesses inherent risk on the “spectrum of inherent risk”, at which the higher end lies significant risks, to drive a more focused response to the identified risks. It should also be noticed that the standard requires the auditor to obtain sufficient, appropriate audit evidence from these risk identification and assessment procedures to form the basis of their risk assessment.

The standard also increases the focus on auditors identifying the assertions where the inherent risk lays. For clarity, we include a table of assertions:

Completeness	Is the balance complete?
Accuracy & valuation	Are transactions accurately recorded and assets and liabilities appropriately measured?
Classification	Is the balance classified correctly?
Occurrence	Did the transaction occur?
Existence	Does the item exist?
Rights & obligations	Does the entity own the item?
Cut-off	Is the item recorded in the correct financial year?
Presentation & disclosure	Is the item presented in the accounts appropriately?

# Revised ISA 315

## Consideration of account balances and assessing inherent risks

Under the revised ISA 315 we will make an assessment of the inherent risks associated with the Commissioner's and Chief Constable's transactions, balances and disclosures. We then determine whether each transaction, balance and disclosure is a 'significant account' (i.e. a significant class of transactions, balances and disclosures) and identify the assertions that are relevant. We then consider the controls the Commissioner and Chief Constable has in place and conclude whether or not we consider the audit risk associated to each item is significant, i.e. after taking into account the controls in place is there a significant risk of material misstatement in relation to the relevant assertion. In addition, the revised ISA requires auditors to document more closely the key business process associated with each significant account with a focus on the processes for how transactions are initiated, recorded, processed, and incorporated into the general ledger.

## Greater emphasis on IT

In response to constantly evolving business environments, the standard has placed an increased emphasis on the requirements for the auditor to gain an understanding of the entity's IT environment to better understand the possible risks within an entity's information systems. As a result, auditors are required to gain a greater understanding of the IT environment, including IT general controls (ITGCs). However, the standard acknowledges the fact that there is a need for scalability in gaining this understanding and provides more detailed guidance on how to approach the topic depending on the complexity of the commercial software and/or IT applications.

## Increased focus on controls

In addition to the above, the standard has also widened the scope of controls deemed relevant to the audit. Auditors are now required to increase their understanding of controls implemented by management, as well as assess the design and implementation of those controls, which include ITGCs.

## Impact on the audit of the Commissioner and Chief Constable

Our risk assessment procedures will be more granular than in the prior year and we will be seeking more information from the Commissioner and Chief Constable to ensure that we can document our detailed understanding of the Commissioner and Chief Constable and the environment that they operates in. This will build on the existing strong knowledge of the Commissioner and Chief Constable we already have in place from our previous years' audits. In documenting our risk assessment, we will need to input additional time to assess inherent risks of the spectrum that the auditing standard requires.

In terms of IT, we have established a good understanding of the Commissioner and Chief Constable's IT environment although we will need to update our assessment following the financial system changes in 2022/23. We will keep this under review as part of our planning and interim audits. We do not plan to test ITGCs as we have designed our approach to gain assurance from substantive testing, which in our view remains the most efficient approach to take.

# 02

Section 02:

**National publications**



# National publications

	Publication/update	Key points
<b>Chartered Institute of Public Finance and Accountability (CIPFA)</b>		
1	Insourcing in the Public Sector: A Practical Guide (2022 edition)	Guidance for practitioners.
2	Audit Committees Practical Guidance for Local Authorities and Police 2022 edition (October 2022)	The guidance and suite of publications (only available for those with a subscription) has separate guidance resources for audit committee members in authorities, members of police audit committees, and a supplement for those responsible for guiding the committee.
<b>Public Audit Forum</b>		
3	Consultation responses to the revised Practice Note 10	<p>The Public Audit Forum (PAF) oversees the development and publication of the Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom which was revised in 2022.</p> <p>PAF has now published the responses to the consultation and final draft amendments. These amendments were approved by the Financial Reporting Council in November 2022.</p>
<b>National Audit Office (NAO)</b>		
4	Government Shared Services	The NAO published its report Government Shared Services which examines whether the government's latest Shared Services Strategy is on track to deliver.
5	Departmental Overview 2021/22	The NAO has produced an overview of the Department for Levelling up, Housing & Communities' (DLUHC's) spending and performance for 2021/22.
6	Improving Government Data: A Guide to Senior Leaders	This guide is aimed at accounting officers, chief executives, and other senior managers responsible for government services and stresses the importance of accurate data for effective decision making.
7	Guide to Corporate Finance in the Public Sector	This interactive guide contains insights from 139 NAO reports and sets out key questions for senior decision-makers to consider when overseeing corporate finance activities.

# National publications

	Publication/update	Key points
Public Sector Audit Appointments Ltd		
8	Directory of Auditor Appointments from 2023/24	Auditor appointments for PSAA opted-in bodies.
9	PSAA announces the number of audit opinions completed for the 2021/22 audits	PSAA has published this year’s position on delayed audit opinions.
Financial Reporting Council (FRC)		
10	Major Local Audits – Audit Quality Inspection (October 2022)	The Financial Reporting Council (FRC) has published its annual report on the quality of local audit work. This follows its 2022 inspections of files for the 2020/21 audit cycle. These included three Mazars files and the results for Mazars were very positive, with each file rated good or with limited improvements required.

# NATIONAL PUBLICATIONS

## CIPFA

### 1. Insourcing in the Public Sector: A Practical Guide (2022 edition), December 2022

The guide is an information source for public bodies to help widen their understanding of insourcing and support internal discussion on whether services should be brought back in-house and, if so, how they should be brought back in. In recent times, several outsourced arrangements have failed due to poor quality and unreliability of providers. It is important to note that while insourcing does not require a public body to run a full procurement process, it still needs to follow a process and undertake key steps (for example, TUPE and asset transfer) and is equally reliant on the public body having expert and skilled personnel to manage this.

This practical guide will support public sector practitioners in understanding key areas to focus on when considering insourcing as part of future delivery models.

<https://www.cipfa.org/policy-and-guidance/publications/i/insourcing-in-the-public-sector-a-practical-guide-2022-edition>

### 2. Audit Committees Practical Guidance for Local Authorities and Police 2022 edition, October 2022

The guidance sets out new expectations for Audit Committees following the Redmond Review. It updates CIPFA's 2018 publication and complements the 2022 CIPFA Position Statement on audit committees. It includes suggested terms of reference, a knowledge and skills framework and effectiveness improvement tool.

<https://www.cipfa.org/policy-and-guidance/publications/a/audit-committees-practical-guidance-for-local-authorities-and-police-2022-edition>

### 3. Consultation on Practice Note 10 (Revised 2022): Summary of Responses and Proposed Amendments – December 2022

The consultation on the exposure draft of the 2022 revision of Practice Note 10 Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom (PN 10) closed on 16 September 2022 and this document summarises the responses to the consultation and the amendments the Public Audit Forum (PAF) proposes to make to the final draft as a result.

Part 1 of PN 10 provides guidance on applying auditing, quality management and ethical standards in the public sector. It is important to consider potential changes to PN 10 in the context of PN 10's status as a Statement of Recommended Practice (SORP): a set of sector-driven recommendations on (in this case) auditing practices for the public sector which guide auditors on how to apply the underlying standards, including International Standards on Auditing (UK) (ISAs (UK)), in the specialised context of the public sector. The PAF has no role in determining the principles or requirements which are included in the ISAs (UK). The PAF also has no direct role in setting the financial reporting frameworks for public sector entities (although member bodies of the PAF maintain dialogue with the framework setters).

As set out in the summary of responses included in the report, respondents commented on a range of issues faced by auditors of public sector entities. By far the most-cited issue was the current situation in local audit in England and current delays in completing audits of local authorities. A number of respondents suggested various ways in which the consultation draft of PN 10 might be amended so as to ameliorate some of these issues by reducing the audit effort in particular areas. There were suggestions that the proposed changes to the guidance on applying ISA (UK) 320 Materiality in planning and performing an audit may have a significant impact on local auditors' approach to materiality judgements.

<https://www.public-audit-forum.org.uk/wp-content/uploads/2022/12/Practice-Note-10-Consultation-Response-2022.pdf>

# NATIONAL PUBLICATIONS

## National Audit Office

### 4. Government shared services – November 2022

The NAO published its report Government Shared Services which examines whether the government's latest Shared Services Strategy is on track to deliver. It aims to answer the following questions:

- Has the government made progress since we last reported on shared services in 2016? (Part One)
- Are the right conditions in place for the government to deliver its proposed efficiencies and savings? (Part Two).
- Has the government put in place mitigating actions to address the future challenges it faces in delivering its strategy? (Part Three)

The report concludes the government's previous shared services strategies failed to deliver their intended cost savings and other benefits. Its new Shared Services Strategy is highly ambitious and, while most departments consider the cluster model a sensible approach, there are several fundamental elements yet to be put in place that are jeopardising the success of the strategy. For example, the Cabinet Office is still unclear on the extent of the benefits this programme can be expected to bring. It is difficult to judge what progress has been made on enablers such as process and data convergence.

The reports highlights concerns that these gaps cause uncertainty for departments and mean that the Cabinet Office will repeat past failures. The NAO, therefore, cannot conclude that this programme is on track to demonstrate value for money.

<https://www.nao.org.uk/reports/government-shared-services/#downloads>

### 5. Departmental Overview 2021/22: Department for Levelling Up, Housing & Communities - December 2022

The NAO has produced an overview of the Department for Levelling up, Housing & Communities' (DLUHC's) spending and performance for 2021/22. DLUHC spends nearly £38 billion each year to support economic growth and housing across the country, in collaboration with local authorities. It has overall responsibility in central government for local authorities' funding. Along with other bodies, DLUHC oversees the core accountability system for local authorities.

The guide summarises the key information and insights that can be gained from the NAO's examinations of DLUHC and related bodies in the sector in England, and DLUHC's Annual Report and Accounts.

<https://www.nao.org.uk/overviews/departmental-overview-2021-22-department-for-levelling-up-housing-communities/>

# NATIONAL PUBLICATIONS

## National Audit Office

### 6. Improving Government Data: A Guide to Senior Leaders, July 2022

The aim of the guide is to encourage decision-makers to realise the benefits of better use of data by helping them understand in more detail the core issues to be addressed which have held back progress in the past. The guide focusses on data to support the operational delivery of public services, but much of the guide will also be relevant to data for decision-making and to improve performance.

<https://www.nao.org.uk/insights/improving-government-data-a-guide-for-senior-leaders/>

### 7. Guide to Corporate Finance in the Public Sector, September 2022

This guide uses insights from NAO stakeholder engagement and draws on NAO experience of auditing government interventions and corporate finance activities. It covers 14 themes over three core areas:

- Principles and concepts;
- Organisations and functions; and
- Transactions

It may also be of interest to professionals supporting the government to deliver a range of transactions, including commercial investments, loans and guarantees. While not directly focussed on local public services the guide may be of interest to local auditors and audited bodies.

<https://www.nao.org.uk/insights/guide-to-corporate-finance-in-the-public-sector/>

# NATIONAL PUBLICATIONS

## Public Sector Audit Appointments Ltd

### 8. Directory of Auditor Appointments from 2023/24 – December 2022

PSAA has published its Directory of Auditor Appointments from 2023/24 following the completion of the 2022 procurement. The Board agreed the appointments at its meeting on 16 December 2022.

<https://www.psaa.co.uk/2023/01/directory-of-auditor-appointments-from-2023-24/>

### 9. PSAA announces the number of audit opinions completed for the 2021/22 audits – December 2022

This year’s position on delayed audit opinions underscores the scale of the huge challenge that local audit is facing. At the publishing date of 30 November 2022, only 12% of local government bodies’ 2021/22 audit opinions have been given. Although this is slightly higher than last year’s 9%, this year’s publishing date is two months later than the 30 September target for delivery of 2020/21 opinions.

The table below highlights a comparison with previous years.

Year of Account	Publishing Date	Opinions given at the publishing date
2021/22	30 November 2022	12%
2020/21	30 September 2021	9%
2019/20	30 November 2020	45%
2018/19	31 July 2019	57%

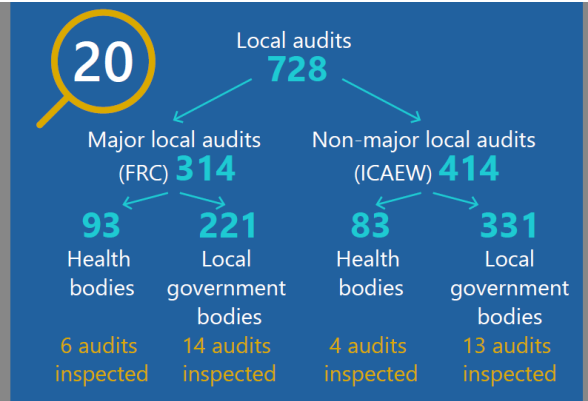
What makes the latest position increasingly alarming is that more than 220 opinions from prior years remain outstanding. As opinions have been given at fewer than 60 bodies for 2021/22, this means that a total of more than 630 opinions are currently late. This year the position has been made more difficult by uncertainties concerning the valuation of infrastructure assets, adding to significant ongoing challenges of recruiting and retaining sufficient staff with the requisite knowledge, skills and experience to both prepare and audit the accounts to the required standard.

<https://www.psaa.co.uk/appointing-auditors-and-fees/list-of-auditor-appointments-and-scale-fees/2022-23-auditor-appointments-and-audit-fee-scale/>

10. FRC Major Local Audit Inspection Report, October 2022

The FRC is responsible for monitoring the quality of the audits of the largest health and local government entities (called Major Local Audits or MLAs). They do this by annually inspecting a sample of MLAs from each of the audit firms who deliver this work. In their most recent publication, they reported on their review of 20 MLAs, three of which related to Mazars. The ICAEW also reviewed 17 non-MLAs (none from Mazars).

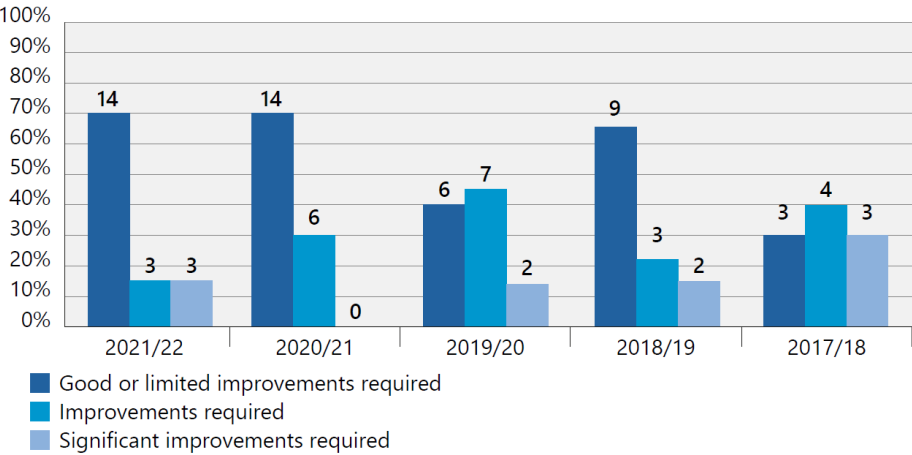
Audit firms undertaking local audits	Number of major local audits (within scope of AQR inspection)	Market share %	Reviewed by AQR in 2021/22
Grant Thornton UK LLP	125	39.8%	7
Ernst & Young LLP	72	22.9%	4
Mazars LLP	55	17.5%	3
KPMG LLP	24	7.7%	2
BDO LLP	21	6.7%	2
Deloitte LLP	17	5.4%	2
Total	314		20



Overall, the FRC found that the number of audits categorised as good or limited improvements required has remained consistent with the prior year. However, there was an increase in the number of audits assessed as requiring significant improvements and they deemed this as unacceptable.

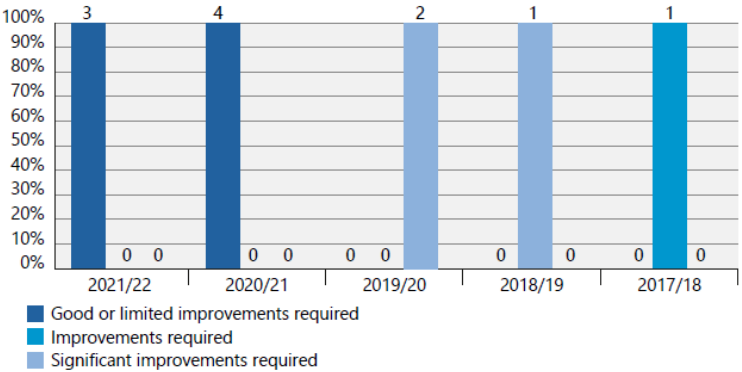
Conversely, for Mazars, the FRC found that all 3 files reviewed met the expected standards. This was the second successive year of 100% compliance following issues with audit quality in 2019/20. Maintaining and improving audit quality is a key objective of the firm.

All financial statement reviews – for the firms inspected



Mazars LLP

Our assessment of the quality of financial statement audits reviewed



100%

At Mazars LLP, all three financial statement audits inspected were assessed as good or limited improvements required.

# Contact

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