

Audit Strategy Memorandum

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

Year ending 31 March 2023



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Appendix A – Key communication points

Appendix B – Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

This document is to be regarded as confidential to the Office of the Police and Crime Commissioner for Cleveland and the Chief Constable for Cleveland. It has been prepared for the sole use of the Joint Independent Audit Committee and the Police and Crime Commissioner for Cleveland and the Chief Constable for Cleveland as those charged with governance. 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.



Mr Steve Turner, Office of the Police and Crime Commissioner for Cleveland
Mr Mark Webster, Chief Constable for Cleveland
Members of the Joint Independent Audit Committee (JIAC)
Cleveland Police - Police Headquarters
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19 September 2023

Dear Police and Crime Commissioner / Chief Constable / Members of the JIAC

Audit Strategy Memorandum – Year ending 31 March 2023

We are pleased to present our Audit Strategy Memorandum for the Police and Crime Commissioner for Cleveland and the Chief Constable for Cleveland for the year ending 31 March 2023. 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 Nexus 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 and explains the implications of the introduction of the new auditing standard for Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019).

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.

Yours faithfully

Gavin Barker

Gavin Barker
Mazars LLP

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01

Section 01:

**Engagement and
responsibilities summary**

1. Engagement and responsibilities summary

Overview

We are appointed to perform the external audit of the Office of the Police and Crime Commissioner for Cleveland (the PCC) and the Chief Constable for Cleveland (the Chief Constable) for the year to 31 March 2023. 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 whether the financial statements are prepared, in all material respects, in accordance with the Code of Practice on Local Authority Accounting. Our audit does not relieve management or the PCC and Chief Constable as those charged with governance, of their responsibilities.

The Chief Finance Officers are responsible for the assessment of whether it is appropriate for the PCC and Chief Constable to prepare the accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on: a) whether a material uncertainty related to going concern exists; and b) consider the appropriateness of the Chief Finance Officers' use of the going concern basis of accounting in the preparation of the financial statements.



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 and Internal Audit, 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.



Value for money

We are also responsible for forming a commentary on the arrangements that the PCC and Chief Constable have 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.



Wider reporting and electors' rights

We report to the NAO on the consistency of the PCC and Group's financial statements with its Whole of Government Accounts (WGA) submission.

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 Chief Constable 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 (including police bodies) in the United Kingdom.

02

Section 02:

Your audit engagement team

2. Your audit engagement team

Below is your audit engagement team and their contact details.



Gavin Barker

Engagement Lead

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07896 684 771.



Campbell Dearden

Audit Manager

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Reece Malcolm

Team leader

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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 activities 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 risk-based and primarily driven by the issues that we consider lead to a higher risk of material misstatement of the accounts. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to the risks identified.

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.

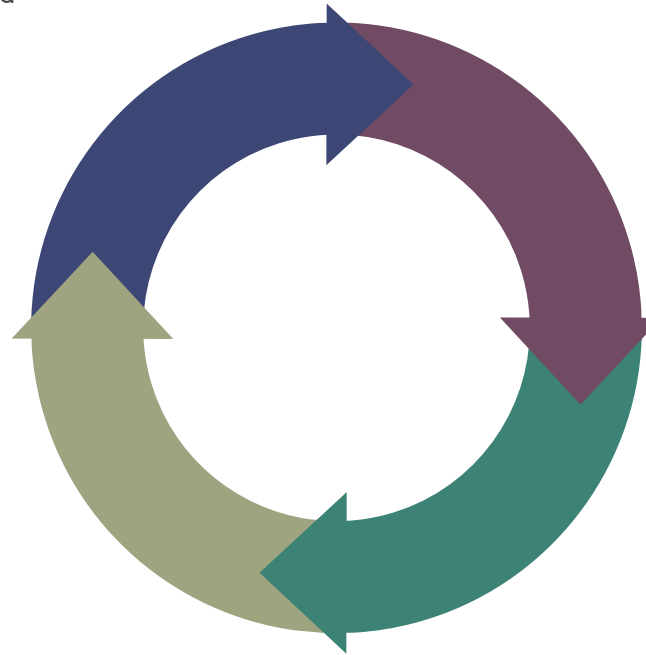
3. Audit scope, approach and timeline

Planning and Risk Assessment January-March 2023

- Planning visit and developing our understanding of the PCC and Chief Constable
- 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
- Risk assessment analytical procedures
- Determination of materiality

Completion September 2023 -TBC

- 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 independent auditor's report
- Obtaining pension fund assurance from the pension fund auditor (date TBC).



Interim March-July 2023

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

Fieldwork July-September 2023

- Receiving and reviewing draft financial statements
- Delivering our audit strategy starting with significant risks and high risk areas including detailed testing of transactions, account balances and disclosures
- Communicating progress and issues
- Clearance meeting

3. Audit scope, approach and timeline

Management’s and our experts

Management makes use of experts in specific areas when preparing the PCC and Chief Constable’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
Pensions Defined Benefits Liability / Asset	AoN for police officers; and Hyman’s Robertson LLP for LGPS	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 Chief Constable 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 organisations used by the PCC and Chief Constable and our planned audit approach.

Items of account	Service organisation	Audit approach
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.

3. Audit scope, approach and timeline

We are responsible for the audit of the group consolidation. An analysis of the PCC and Group is shown below, setting out an overview of the type of work to be performed on the financial information of the components:

Entity	Auditor	Scope
Office of the Police and Crime Commissioner for Cleveland	Mazars	Full
Chief Constable for Cleveland	Mazars	Full

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 risks relevant 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

Significant risks are those risks assessed as being close to the upper end of the spectrum of inherent risk, based on the combination of the likelihood of a misstatement occurring and the magnitude of any potential misstatement. Fraud risks are always assessed as significant risks as required by auditing standards, including management override of controls and revenue recognition. For the PCC and Chief Constable, we have rebutted the risk of revenue recognition as a significant risk.

Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement 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:

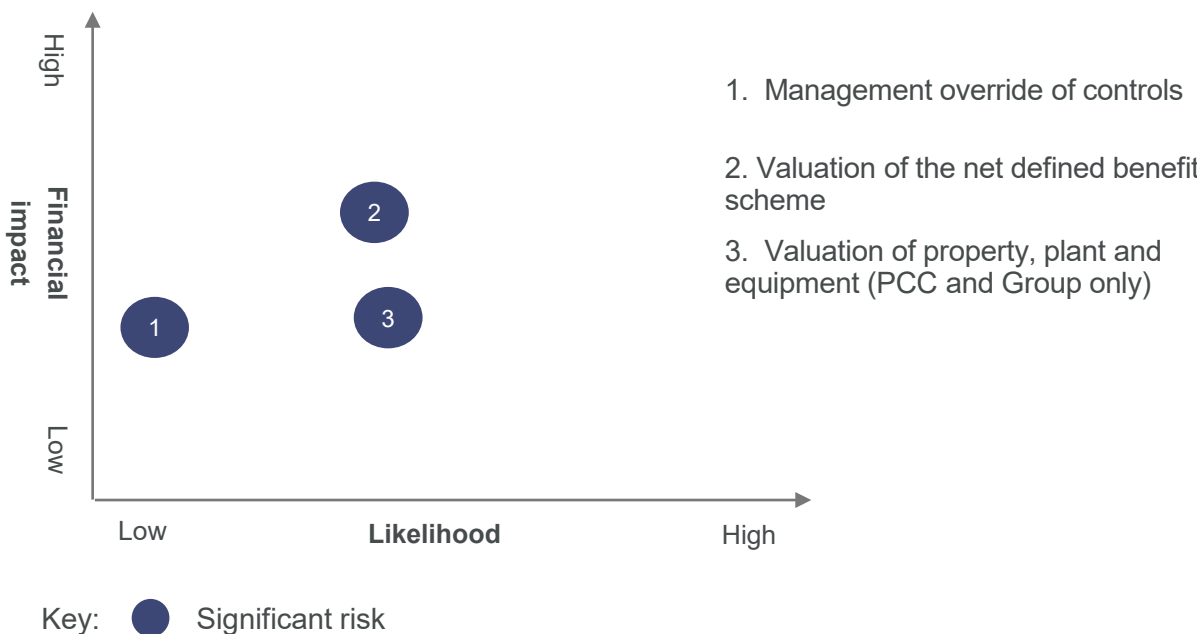
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

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.

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 Chief Constable. 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 and 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.

Significant risks

	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>	●	○	○	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.

4. Significant risks and other key judgement areas

Significant risks (continued)

	Description	Fraud	Error	Judgement	Planned response
2	<p>ISA19 Net defined benefit 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 includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p> <p>For 2022/23, a net asset position is being reported for the LGPS for the first time.</p>	○	●	●	<p>We will discuss with key contacts any significant changes to the pension estimates. 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. We will consider the adequacy of disclosures in the financial statements. We will also seek assurance from the auditor of the Teesside Pension Fund.</p> <p>We will consider the accounting treatment in respect of the reporting of a net asset position on the LGPS for 2022/23.</p>
3	<p>Valuation of property, plant and equipment (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 and Group's holding of PPE. Although the PCC and Group uses a valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations. We have therefore identified the valuation of PPE to be an area of significant risk.</p>	○	●	●	<p>We plan to address this risk by considering the PCC and Group's arrangements for ensuring that PPE values are reasonable and we will use data on valuation trends and relevant indices 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 examine supporting information. We will use indices provided by NAO's valuation expert (Montague Evans) to confirm the assets not revalued are unlikely to have materially changed in value. Where material, we will test the revaluations in year to valuation reports and supporting calculation sheets and ensure that the calculations are correct and source data agrees.</p>

05

Section 05:

Value for money

5. Value for money

We are required to form a view as to whether the PCC and Chief Constable 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.

2022/23 will be the third audit year where we are undertaking our value for money (VFM) work under the 2020 Code of Audit Practice (the Code). Our responsibility remains to be satisfied that the PCC and Chief Constable have proper arrangements in place and to report in the audit report and/or the audit completion certificate where we identify significant weaknesses in arrangements. Separately we provide a commentary on the PCC and Chief Constable’s arrangements in 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 Chief Constable plan and manage their resources to ensure they can continue to deliver their services;
- 2. **Governance** – how the PCC and Chief Constable ensure that they make informed decisions and properly manage their risks; and
- 3. **Improving economy, efficiency and effectiveness** – how the PCC and Chief Constable use information about their costs and performance to improve the way they manage and deliver their 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 Chief Constable’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 Chief Constable 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.



5. Value for money

Our work to follow-up on previous recommendations

As part of our 2020/21 audit, we identified a significant weaknesses in the PCC and Chief Constable's arrangements in relation to an inspection report issued by HMICFRS in 2019. In March 2023 a further HMICFRS inspection report in relation to 2021/22 was published. In our 2021/22 VFM reporting, the significant weakness and recommendation reported in 2020/21 has been closed and a new significant weakness and recommendation is to be reported based on the specific findings of the 2021/22 HMICFRS inspection report. At the time of writing the final wording of the 2021/22 significant weakness and recommendation has not been finalised. The has been subject to Consultant Partner Review, but is still awaiting clearance from our technical team. Consequently, we have included the latest wording here, but when we take this issue forward into the VFM reporting for 2022/23 we will use the final wording cleared by our technical team. We do not anticipate a significant change arising from this process.

5. Value for money

Chief Constable

Subject to the comments on page 19, this is the draft wording of the significant weakness brought forward from the prior year and to be included in the Auditor’s Annual Report for the year ended 31 March 2022.

	Previously identified significant weakness in arrangements	Relevant reporting criteria	Our 2021/22 recommendation	Planned procedures for 2022/23
1	<p>2021/22 HMICFRS Inspection Report</p> <p>Financial sustainability and Improving economy, efficiency and effectiveness</p> <p>The HMICFRS inspection report for 2021/22, which was published on 17 March 2023, identified one area of policing as good, four as adequate, three as requires improvement and two as inadequate. This was a significant improvement on the results of the previous inspection in 2019.</p> <p>In our view, the two areas of policing which are rated as inadequate, ‘preventing crime’ and ‘good use of resources’, continue to represent a significant weakness in the Chief Constable’s arrangements as described below.</p> <p>The ‘preventing crime’ assessment is that the arrangements for prevention and deterrence of crime and anti-social behaviour have focused disproportionately on demand with only limited emphasis on prevention. The Chief Constable needs to provide strategic direction and co-ordination, and integrate preventative practice and problem-solving across the organisation. In our view, the HMICFRS concerns about ‘preventing crime’ represents a significant weakness in arrangements in relation to how the Chief Constable evaluates the services he provides to assess performance and identify areas for improvement under the economy, efficiency and effectiveness criterion.</p> <p>The ‘good use of resources’ assessment is that the Chief Constable does not adequately understand the demand that he faces. A thorough understanding of demand is required to underpin all strategic planning, including workforce and financial planning, and to deliver the necessary results. In our view, the HMICFRS concerns about ‘good use of resources’ represents a significant weakness in arrangements in relation to how the Chief Constable ensures that his financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system under the financial sustainability criterion.</p>	<p>Financial sustainability</p> <p>Improving the 3E’s</p>	<p>We recommend that the Chief Constable should address the causes of concern in relation to ‘preventing crime’ and ‘good use of resources’ and implement the recommendations made in the HMICFRS inspection report.</p>	<p>We will review the progress made by Cleveland Police to address the issues raised by HMICFRS in the inspection report published in March 2023.</p>

5. Value for money

Police and Crime Commissioner

Subject to the comments on page 19, this is the draft wording of the significant weakness brought forward from the prior year and to be included in the Auditor's Annual Report for the year ended 31 March 2022.

	Previously identified significant weakness in arrangements	Relevant reporting criteria	Our 2021/22 recommendation	Planned procedures for 2022/23
1	<p>2021/22 HMICFRS Inspection Report</p> <p>Financial sustainability and Improving economy, efficiency and effectiveness</p> <p>The HMICFRS inspection report for 2021/22, which was published on 17 March 2023, identified one area of policing as good, four as adequate, three as requires improvement and two as inadequate. This was a significant improvement on the results of the previous inspection in 2019.</p> <p>In our view, the two areas of policing which are rated as inadequate, 'preventing crime' and 'good use of resources', continue to represent a significant weakness in the Chief Constable's arrangements as described below.</p> <p>The 'preventing crime' assessment is that the arrangements for prevention and deterrence of crime and anti-social behaviour have focused disproportionately on demand with only limited emphasis on prevention. The Chief Constable needs to provide strategic direction and co-ordination, and integrate preventative practice and problem-solving across the organisation. In our view, the HMICFRS concerns about 'preventing crime' represents a significant weakness in arrangements in relation to how the Chief Constable evaluates the services he provides to assess performance and identify areas for improvement under the economy, efficiency and effectiveness criterion.</p> <p>The 'good use of resources' assessment is that the Chief Constable does not adequately understand the demand that he faces. A thorough understanding of demand is required to underpin all strategic planning, including workforce and financial planning, and to deliver the necessary results. In our view, the HMICFRS concerns about 'good use of resources' represents a significant weakness in arrangements in relation to how the Chief Constable ensures that his financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system under the financial sustainability criterion.</p> <p>HMICFRS' concerns around the Chief Constable's progress also represent an issue for the Police and Crime Commissioner who is elected by the public to hold the Chief Constable and the Force to account.</p>	<p>Financial sustainability</p> <p>Improving the 3E's</p>	<p>We recommend that the Police and Crime Commissioner monitors and reports on the progress made by the Chief Constable to address the causes of concern in relation to 'preventing crime' and 'good use of resources' to ensure that the Chief Constable implements the recommendations made in the HMICFRS inspection report.</p>	<p>We will review the progress made by Cleveland Police to address the issues raised by HMICFRS in the inspection report published in March 2023.</p>

06

Section 06:

Fees for audit and other services

6. Fees for audit and other services

Fees for work as the PCC and Chief Constable’s appointed auditor

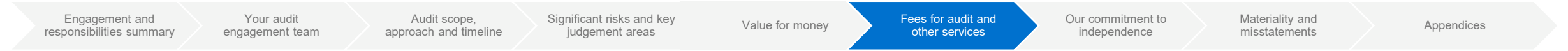
At this stage we are proposing one area where there will be a fee increase in 2022/23 compared to our final fees for 2021/22 (this relates to the implementation of revised ISA 315). There is also an inflationary fee increase which is to be funded by PSAA and is not included in the tables below. Additional fees for 2021/22, which in turn will impact on the 2022/23 audit fee, are still subject to finalisation and PSAA approval. All fees are subject to VAT.

Fees for the PCC and Group

Area of work	2022/23 Proposed audit fee (£ excluding VAT)	2021/22 Actual Fee (£ excluding VAT)
Scale audit fee	£32,599	£26,045
Recurring increases in the base audit fee arising from regulatory pressures (as originally agreed in the 2019/20 audit, uplifted for PSAA 25% increase in rates); note that the 2021/22 fee has been incorporated into the 2022/23 scale audit fee by PSAA	£0	£6,554
Additional fees in respect of the VFM approach (recurring, as agreed from the 2020/21 audit)	£6,000	£6,000
Additional fees in respect of the revised ISA 540 (recurring, as agreed from the 2020/21 audit)	£1,900	£1,900
Additional fees in respect of the pension reporting and triennial pensions issue – specific issue relating to the 2021/22 audit, and non recurring (these have delayed our audit reporting on the 2021/22 financial year)	£0	£3,000 (estimated at this stage)
ISA 315 revised – additional work in relation to understanding the entity, including documenting risks, risk assessments, and an additional focus on IT general controls (new standard applied from 2022/23 for the first time)	To be confirmed ¹	£0
Grand total	£40,499 ¹	£43,499

Note 1 – there will be an additional fee in the 2022/23 audit for the implementation of ISA 315 (revised), the level of this fee can not be confirmed at this stage, so this fee and the Grand Total for the 2022/23 audit fee are subject to change.

The 2022/23 fee is subject to a 5.2% inflationary increase, not included in the table above. As set out in the PSAA’s ‘Consultation on 2022/23 audit fee scale’ published in August 2022, PSAA will fund the inflationary increase using “surplus funds not required for PSAA’s operations, which would otherwise be distributed to opted-in bodies” (p8 of the consultation).



6. Fees for audit and other services

Fees for the Chief Constable

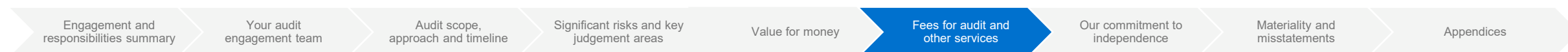
Area of work	2022/23 Proposed audit fee (£ excluding VAT)	2021/22 Actual Fee (£ excluding VAT)
Scale audit fee	£14,500	£11,550
Recurring increases in the base audit fee arising from regulatory pressures (as originally agreed in the 2019/20 audit, uplifted for PSAA 25% increase in rates); note that the 2021/22 fee has been incorporated into the 2022/23 scale audit fee by PSAA	£0	£2,950
Additional fees in respect of the VFM approach (recurring, as agreed from the 2020/21 audit)	£5,000	£5,000
Additional fees in respect of the revised ISA 540 (recurring, as agreed from the 2020/21 audit)	£600	£600
Additional fees in respect of the pension reporting and triennial pensions issue – specific issue relating to the 2021/22 audit, and non recurring (these have delayed our audit reporting on the 2021/22 financial year)	£0	£1,000 (estimated at this stage)
ISA 315 revised – additional work in relation to understanding the entity, including documenting risks, risk assessments, and an additional focus on IT general controls (new standard applied from 2022/23 for the first time)	To be confirmed ¹	£0
Grand total	£20,100 ¹	£21,100

Note 1 – there will be an additional fee in the 2022/23 audit for the implementation of ISA 315 (revised), the level of this fee can not be confirmed at this stage, so this fee and the Grand Total for the 2022/23 audit fee are subject to change.

The 2022/23 fee is subject to a 5.2% inflationary increase, not included in the table above. As set out in the PSAA's 'Consultation on 2022/23 audit fee scale' published in August 2022, PSAA will fund the inflationary increase using "surplus funds not required for PSAA's operations, which would otherwise be distributed to opted-in bodies" (p8 of the consultation).

Fees for non-PSAA work

At this stage we are not expecting to undertake any non-PSAA work for the PCC & Group or the Chief Constable for 2022/23.



07

Section 07:

Our commitment to independence

7. Our commitment to independence

We are committed to independence and are required by the Financial Reporting Authority 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 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.

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

08

Section 08:

Materiality and misstatements

8. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Initial threshold Group £'000s	Initial threshold PCC £'000s	Initial threshold Chief Constable £'000s
Overall materiality	4,992	3,476	4,012
Performance materiality	3,994	2,780	3,210
Specific materiality			
• Senior officer remuneration	5	5	5
• exit packages	20	20	20
Trivial threshold for errors to be reported to the Joint Independent Audit Committee	150	104	120

Materiality

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

Information is considered to be material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

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.

8. Materiality and misstatements

Materiality (continued)

Our provisional materiality is set based on a benchmark of 2% of gross revenue expenditure. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the PCC and Chief Constable and 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.

We expect to set a materiality threshold at 2% of gross revenue expenditure at the surplus / deficit level. Based on the 2022/23 draft financial statements, we anticipate the overall materiality for the year ending 31 March 2023 to be in the region of £4.992m for the Group (£4.91m in the prior year), £3.476m for the PCC (£3.282m in the prior year) and £4.012m for the Chief Constable (£4.524m for 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 for the Group, the PCC and Chief Constable.

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 £150k for the Group, £104k for the PCC and £120k for the Chief Constable 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 above the trivial threshold 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).



Appendices

A: Key communication points

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

Appendix A: Key communication points

We value communication with the PCC and Chief Constable as '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:

- Audit Strategy Memorandum;
- 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;
- Significant difficulties, if any, encountered during the audit;
- Qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures;
- 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 A: 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 PCC and Chief Constable 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 A: 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 the PCC and Chief Constable to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report

Appendix A: 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 PCC and Chief Constable 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 Chief Constable may be aware of.	Audit Completion Report and the 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 consolidated 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
Indication of whether all requested explanations and documents were provided by the entity.	Audit Completion Report

Appendix B: Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

Background

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 new standard is effective for periods commencing on or after 15 December 2021 and therefore applies in full for the PCC and Chief Constable's 2022/23 audit.

The most significant changes relevant to the PCC and Chief Constable's audit are outlined below.

Enhanced risk identification and assessment

The standard has enhanced the requirements for the auditor to understand the audited entity, its environment and the applicable financial reporting framework in order to identify and assess risk based on new inherent risk factors which include:

- Subjectivity
- Complexity
- Uncertainty and change
- Susceptibility to misstatement due to management bias or fraud.

Using these inherent risk factors, we assess inherent risk on a spectrum, at which the higher end of which lies significant risks, to drive an audit that is more focused on identified risks. Auditors are now also required to obtain sufficient, appropriate evidence from these risk identification and assessment procedures which means documentation and evidence requirements are also enhanced.

Greater emphasis on understanding IT

In response to constantly evolving business environments, the standard places 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, we are required to gain a greater understanding of the IT environment, including IT general controls (ITGCs).

Increased focus on controls

Building on the need for auditors to gain a greater understanding of the IT environment, the standard also widens the scope of controls that are deemed relevant to the audit. We are now required to broaden our understanding of controls implemented by management, including ITGCs, as well as assess the design and implementation of those controls.

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