Police and Crime Commissioner and Chief Constable for Leicestershire Police

Audit planning report

Year ended 31 March 2022

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28 March 2023

Police and Crime Commissioner and Chief Constable
Leicestershire Police
Leicester
LE19 2BX

Dear Police and Crime Commissioner and Chief Constable for Leicestershire

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Police and Crime Commissioner (PCC), Chief Constable (CC) and Joint Audit, Risk and Assurance Panel (JARAP) with a basis to review our proposed audit approach and scope for the 2021/22 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the JARAP's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Police and Crime Commissioner and Chief Constable for Leicestershire, and outlines our planned audit strategy in response to those risks. At the time of writing this report our planning procedures are ongoing, this includes our work requirements on the value for money conclusion. Upon completion of these procedures we will notify both management and the JARAP of any changes or revisions to our audit strategy.

This report is intended solely for the information and use of the PCC, CC, JARAP and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 17 April 2023 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Hayley Clark, Partner

For and on behalf of Ernst & Young LLP

Contents

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA (https://www.psaa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the PCC, CC, JARAP and management of Leicestershire Police and Crime Commissioner and Chief Constable in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the PCC, CC , JARAP and management of Leicestershire those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the PCC, CC, JARAP and management of Leicestershire for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2021/22 audit strategy

Overview of our 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Police and Crime Commissioner (PCC), Chief Constable (CC) and the Joint Audit, Risk and Assurance Panel with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error (PCC & CC)	Fraud risk (and significant risk)	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Risk of fraud in revenue and expenditure recognition – cut-off of other income (PCC and CC)	Fraud risk (and significant risk)	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. We consider the risk to be relevant to those significant revenue streams other than taxation receipts and grants, where management is able to apply more judgement. Specifically, our risk is focused on the cut-off of other income (including fees and charges and other service income), where management may seek to move income between 2021/22 and 2022/23.
Risk of fraud in revenue and expenditure recognition – inappropriate capitalisation of revenue expenditure (PCC and CC)	Fraud risk (and significant risk)	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. For Leicestershire Police, we consider that this risk is more prevalent over the medium term and is likely to occur through the capitalisation of expenditure that should be accounted for in the Comprehensive Income and Expenditure Statement (CIES).
Valuation of Land & Buildings in Property, Plant and Equipment (PPE) (PCC)	Higher inherent risk and area of audit focus	Reduced focus or risk	The value of land and buildings in PPE represent significant balances in the financial statements and are subject to valuation changes and impairment reviews. The external valuation expert undertakes a rolling programme of valuations that ensures that all land and building assets required to be measured at fair value are revalued at least every five years. Management is required to make a high degree of material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet and a small movement in these assumptions could have a material impact on the financial statements. As the Code requires all land and buildings to be held at valuation, there is a risk that the asset base is materially misstated. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management's specialist and assumptions underlying fair value estimates.
Collaborative arrangements (CC)	Higher inherent risk and area of audit focus	No change in risk or focus	The joint arrangements operate with partners across the East Midlands. There is a risk that the allocation of activity in the financial statements is not correctly recorded in the financial statements.
Senior Officers Remuneration	Higher inherent risk and area of audit focus	New area of focus	Given the high level of turnover in management there is the risk around the completeness of senior officer remuneration disclosures, as well as amounts not being correctly recorded in the financial statements.

Overview of our 2021/22 audit strategy (continued)

Risk	Inherent Risk	Change from PY	Details
Valuation of Local Government Pension Scheme (PCC and CC)	Higher inherent risk and area of audit focus	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 requires the PCC and Group and CC to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS), administered by Leicestershire County Council, in which it is an admitted body. The PCC, Group's and the CC's current pension fund deficit is a material and sensitive item and the Code requires that this net liability be disclosed on the balance sheet. The information disclosed is based on the IAS 19 report issued to the PCC and the CC by the Actuary. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.
Valuation of the Police Pension Scheme Liability (CC)	Higher inherent risk and area of audit focus	No change in risk or focus	The Police Pension Fund valuations involve significant estimation and judgement which management engages an external specialist to provide a range of actuarial assumptions, such as rates of pay and pension inflation, mortality and discount rates. A small movement in these assumptions could have a material impact on the value in the balance sheet.

Overview of our 2021/22 audit strategy (continued)

Materiality

	Group	PCC	CC
Planning materiality	£6.99m	£2.18m	£6.8m
Performance materiality	£5.25m	£1.64m	£5.1m
Audit differences	£350,000	£109,000	£340,000

The materiality for Group and CC has been set at £6.99million and £6.8million respectively, using 2% of the prior year's gross expenditure on provisions of services. The materiality for PCC has been set at £2.18 million, using 2% of the prior year's assets.

Performance materiality has been set at 75% of materiality for the Group, CC and PCC – which is consistent with the prior year.

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement and police pension fund financial statements) greater than £340,000 for the CC and £109,000 for the PCC. Other misstatements identified will be communicated to the extent that they merit the attention of the PCC and CC.

Overview of our 2021/22 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Police and Crime Commissioner and Chief Constable for Leicestershire Police give a true and fair view of the financial position as at 31 March 2022 and of the income and expenditure for the year then ended; and
- Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on VFM in Section 03.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the PCC and CC's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

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

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the PCC and CC.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the ISA 540 (revised) and the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of PCC and CC for Leicestershire Police's audit, we will discuss these with management as to the impact on the scale fee.

Effects of climate-related matters on financial statements and Value for Money arrangements

Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to an entity. It is nevertheless important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements and value for money arrangements.

We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.

Overview of our 2021/22 audit strategy

Value for money conclusion

We include details in Section 03 but in summary:

- We are required to consider whether the PCC and CC for Leicestershire Police has made 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.
- Planning on value for money and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of the PCC and CC for Leicestershire Police's arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.
- We will provide a commentary on the PCC and CC for Leicestershire Police's arrangements against three reporting criteria:
    - Financial sustainability - How the PCC and CC for Leicestershire Police plans and manages its resources to ensure it can continue to deliver its services;
    - Governance - How the PCC and CC for Leicestershire Police ensures that it makes informed decisions and properly manages its risks; and
    - Improving economy, efficiency and effectiveness - How the PCC and CC for Leicestershire Police uses information about its costs and performance to improve the way it manages and delivers its services.
- The commentary on VFM arrangements will be included in the Auditor's Annual Report.

Timeline

The Ministry of Housing, Communities and Local Government established regulations to extend the target date for publishing audited local authority accounts from 31 July to 30 September, for a period of two years (i.e. covering the audit of the 2020/21 and 2021/22 accounting years).

In December 2021, the Department for Levelling Up, Housing and Communities (DLUHC) announced proposals to extend the deadline for the publication of audited accounts to 30 November for 2021/22. Whilst the publication has been set this is not a statutory deadline and where this is not achieved, a notice is placed on the Authority's website citing the reasons for the delays.

The 21/22 audit has commenced in March 2023 with the agreement of management. In Section 07 we include a provisional timeline for the audit.

02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error*

(PCC & CC)

Financial statement impact

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

What is the risk?

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What will we do?

In order to address this risk we will carry out a range of procedures including:

- Identify what specific fraud risks exist during audit planning;
- Enquire of management about risks of fraud and the controls put in place to address those risks;
- Understand the oversight given by those charged with governance of management's processes over fraud;
- Consider the effectiveness of management's controls designed to address the risk of fraud;
- Determine an appropriate strategy to address those identified risks of fraud;
- Performing mandatory procedures regardless of specifically identified fraud risks, including;
    - testing of journal entries and other adjustments in the preparation of the financial statements;
    - reviewing accounting estimates for evidence of management bias; and
    - evaluating the business rationale for significant unusual transactions.

Our response to significant risks (continued)

Risk of fraud in revenue and expenditure recognition – cut-off of other income*

(PCC & CC)

Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could overstate or understate other income in the CIES, including fees and charges (draft other income in 2021/22 is £11.3 million (£8.9 million in 2020/21 and debtors in 2021/22 amount to £27m (£25m 2020/21).

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. We consider the risk to be relevant to those significant revenue streams other than taxation receipts and grants, where management is able to apply more judgement. Specifically, our risk is focused on the cut-off of other income (including fees and charges and other service income), where management may seek to move income between 2021/22 and 2022/23.

We focus on judgements that could be influenced by management decisions and bias. Specifically we have focused on any judgement made by management in relation to the financial year other income has been recognised in.

What will we do?

In order to address this risk we will carry out a range of procedures including:

- Reviewing and discussing with management any accounting estimates or judgements on other income recognition for evidence of bias;
- Performing overall analytical review procedures to identify any unusual movements or trends for further investigation in other income;
- Using our data analytics tool to identify and test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, specifically those that manually moved other income between years;
- Performing other income and debtor cut-off testing.

Audit risks

Our response to significant risks (continued)

Risk of fraud in revenue and expenditure recognition – inappropriate capitalisation of revenue expenditure *

Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could understate expenditure in the CIES and overstate PPE additions. Draft PPE additions in 2021/22 are £5.5 million.

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We consider that this risk is more prevalent over the medium term and is likely to occur through the capitalisation of expenditure that should be accounted for in the CIES given the extent of the Authority's capital programme. We consider this to impact on the valuation of PPE balances.

What will we do?

In order to address this risk we will carry out a range of procedures including:

- Sample test additions to Property, Plant and Equipment to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised;
- Using our data analytics tool to identify and test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statement, specifically those that moved expenditure to PPE balance sheet general ledger codes; and
- Review and discuss with management any accounting estimates on capital expenditure recognition for evidence of bias.

Audit risks

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Valuation of Land and Buildings in PPE The valuation of Property, Plant and Equipment (PPE), specifically land and buildings, represent significant balances in the entity's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. The PCC will engage an external expert valuer who will apply a number of complex assumptions to these assets. Annually assets are assessed to identify whether there is any indication of impairment. As the PCC's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/ overstated. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. At 31 March 2022, the draft value of operational land and buildings in PPE is £59.3m.	In order to address this risk we will carry out a range of procedures including: ▸ Consider the work performed by the external valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; ▸ Challenge the assumptions used by the valuer by reference to external evidence and our EY valuation specialists as necessary – for example, significant or unusual movements in valuation, or difficult to value specialist assets; ▸ Sample test key asset information used by the valuers in performing their valuation (e.g. building areas to support valuations based on price per square metre); ▸ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; ▸ Review assets not subject to valuation in 2021/22 to confirm that the remaining asset base is not materially misstated; ▸ Consider changes to useful economic lives as a result of the most recent valuation; and ▸ Test accounting entries have been correctly processed in the financial statements.

Collaborative arrangements (PCC and CC)
 	
The CC participate in a number of Jointly Controlled Operations (JCO) or Collaborations with other East Midlands Forces. These are used to deliver services within the Force. The share of cost to Leicestershire is different depending on the number partaking in the JCO. There is also combination of JCO's being hosted by either Leicestershire or Derbyshire.
 	
Given the volume of transactions being accounted for across the 5 Forces that participate across the JCO's and their value, we consider there to be a risk associated with the accuracy of the information being reported and accounted for (i.e. the measurement/valuation, completeness and presentation and disclosure of balances included in the financial statements).
	In order to address this risk we will carry out a range of procedures including:
	▸ Review the underlying allocation of expenditure in the CC's own accounts against agreements in place.
	
	▸ Consider the completeness of the reported balances within the financial statements.
	
	▸ Seek assurance from the external auditors at Derbyshire Chief Constable on:
	
	  ▸ The processes in place to record and transact balances for other Forces.
	
	  ▸ Confirmation of the balances recorded and reported for Leicestershire Chief Constable.
	
	  ▸ How assurances have been gained that balances for each Force have been recorded completely and accurately within the finance system.

Other areas of audit focus

What is the risk/area of focus?	What will we do?
Valuation of Local Government Pension Scheme The Local Authority Accounting Code of Practice and IAS19 requires the PCC and Group and CC to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS), administered by Leicestershire County Council, in which it is an admitted body. The pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the balance sheets. At 31 March 2022 the draft financial statements include an amount of £421 million. The information disclosed is based on the IAS 19 report issued to the PCC and Group and CC by the actuary to the Leicestershire Pension Fund. The accounting entries relating to the LGPS are underpinned by significant assumptions and estimates. There is therefore an increased risk of misstatement and error. The estimation of the defined benefit obligations is sensitive to a range of assumptions such as rates of pay and pension inflation, mortality and discount rates. The pension fund valuations separately involve external specialists, to provide these actuarial assumptions. The defined benefit assets involve estimation on the expected asset returns for the year based on the movement in the underlying Pension Fund total assets. A small movement in these assumptions could have a material impact on the value in the balance sheet. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and assumptions underlying these estimates.	We will ▸ liaise with the auditors of Leicestershire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the PCC and Group and CC; ▸ assess the work of the LGPS Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PwC - Consulting Actuaries commissioned by the NAO for all Local Auditors, and considering any relevant reviews by the EY actuarial team; ▸ consider the reasonableness of the actuary's estimate of the asset returns applied in rolling forward the asset position from the prior year; ▸ review and test the accounting entries and disclosures made within the PCC and Group and CC financial statements in relation to IAS19, including any updates to the value of year end assets; and ▸ where outturn information is available at the time we undertake our work after production of the Force's draft financial statements (for example the year-end actual valuation of pension fund assets), we will use this to inform our assessment of the accuracy of estimated information included in the financial statements and whether any adjustments are required. ▸ Additional procedures will be performed over the LGPS triennial valuation once CIPFA guidance has been received.
Senior Officers Remuneration Given the high level of turnover in management there is the risk around the completeness of senior officer remuneration disclosures, as well as amounts not being correctly recorded in the financial statements.	We will ▸ Obtain details of senior officer's remuneration (including salary and pensions) and agree these to supporting documentation including payroll and pension records; ▸ Check that the Senior Officer Remuneration disclosure is consistent with the termination benefits and exit packages note; ▸ Test that the disclosure in the financial statements is made in accordance with the requirements within the CIPFA code; ▸ Review the minutes of meetings to corroborate appointments and terminations in year; and ▸ Test whether any redundancy payments have been made in accordance with any relevant guidance.

Other areas of audit focus

What is the risk/area of focus?	What will we do?
Valuation of the Police Pension Scheme Liability The Local Authority Accounting Code of Practice and IAS19 require the Group and CC to make extensive disclosures within their financial statements regarding their membership of the Police Pension Scheme administered and underwritten by HM Government. The Group and CC Pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the balance sheets of the Group and CC. At 31 March 2022 this totalled £2,614 million. Accounting for the scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	In order to address this risk we will carry out a range of procedures including: ▸ consider the work performed by the Police Pension Fund actuary (Mercer), including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; ▸ assess the work of the actuary including the assumptions they have used by relying on the work of PwC - Consulting Actuaries commissioned by the NAO for all Local Auditors; ▸ review and test the accounting entries and disclosures made within the CC and Group financial statements in relation to IAS19, including any updates to the value of year end assets; and ▸ gain assurance over data that has been provided to the actuary.

Other matters

What is the risk/area of focus?	What will we do?
Going Concern Compliance with ISA 570 This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the PCC and Group was the audit of the 2020/21 financial statements. CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 states that organisations can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis. However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. The revised standard increases the work we are required to perform when assessing whether the PCC and Group are a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Joint Audit, Risk and Assurance Panel.	The revised standard requires: ▸ auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias; ▸ greater work for us to challenge management's assessment of going concern, including the cashflow forecast covering the foreseeable future and its impact on liquidity; ▸ improved transparency with a new reporting requirement to provide a clear, positive conclusion on whether management's assessment is appropriate, and to set out the work we have done in this respect. While the PCC Group are not one of the three entity types listed, we will ensure compliance with any updated reporting requirements; ▸ a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and ▸ necessary consideration regarding the appropriateness of financial statement disclosures around going concern.

Other matters

Auditing accounting estimates

ISA 540 (Revised) - Auditing Accounting Estimates and Related Disclosures applies to audits of all accounting estimates in financial statements for periods beginning on or after December 15, 2019.

This revised ISA responds to changes in financial reporting standards and a more complex business environment which together have increased the importance of accounting estimates to the users of financial statements and introduced new challenges for preparers and auditors.

The revised ISA requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we expect the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area.

The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required, particularly in cases where an accounting estimate and related disclosures are higher on the spectrum of inherent risk. For example:

- We may place more emphasis on obtaining an understanding of the nature and extent of your estimation processes and key aspects of related policies and procedures. We will need to review whether controls over these processes have been adequately designed and implemented in a greater number of cases.
- We may provide increased challenge of aspects of how you derive your accounting estimates. For example, as well as undertaking procedures to determine whether there is evidence which supports the judgments made by management, we may also consider whether there is evidence which could contradicts them.
- We may make more focussed requests for evidence or carry out more targeted procedures relating to components of accounting estimates. This might include the methods or models used, assumptions and data chosen or how disclosures (for instance on the level of uncertainty in an estimate) have been made, depending on our assessment of where the inherent risk lies.
- You may wish to consider retaining experts to assist with related work. You may also consider documenting key judgements and decisions in anticipation of auditor requests, to facilitate more efficient and effective discussions with the audit team.
- We may ask for new or changed management representations compared to prior years.

03 Value for Money Risks

Value for Money

PCC/CC's responsibilities for value for money

The PCC/CC is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

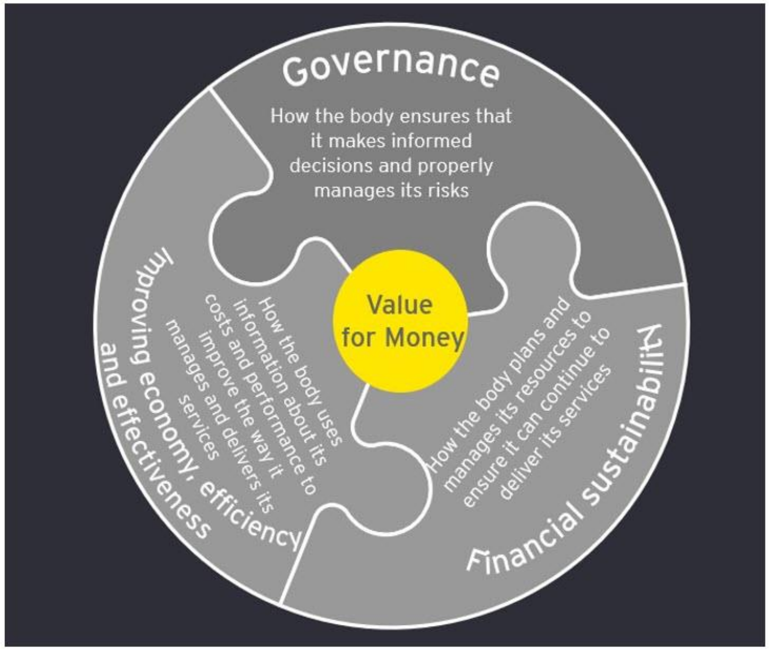
As part of the material published with the financial statements, the PCC/CC is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the PCC/CC tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on arrangements for securing value for money from the use of resources.

Auditor responsibilities

Under the NAO Code of Audit Practice we are required to consider whether the PCC/CC has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the PCC/CC a commentary against specified reporting criteria (see below) on the arrangements the PCC/CC has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability - How the PCC/CC plans and manages its resources to ensure it can continue to deliver its services.
- Governance - How the PCC/CC ensures that it makes informed decisions and properly manages its risks.
- Improving economy, efficiency and effectiveness - How the PCC/CC uses information about its costs and performance to improve the way it manages and delivers its services.



Value for Money

Planning and identifying risks of significant weakness in VFM arrangements

The NAO's guidance notes requires us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the PCC/CC's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

In considering the PCC/CC's arrangements, we are required to consider:

- The PCC/CC's governance statement;
- Evidence that the PCC/CC's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates and other bodies; and
- Any other evidence source that we regards as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes – or could reasonably be expected to expose – the PCC/CC's to significant financial loss or risk;
- Leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the PCC/CC's reputation;
- Leads to – or could reasonably be expected to lead to – unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the PCC/CC;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- The impact of the weakness on the PCC/CC's reported performance;
- Whether the issue has been identified by the PCC/CC's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the PCC/CC has had to respond to the issue.

Value for Money

Responding to identified risks of significant weakness

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Joint Audit, Risk and Assurance Panel.

Reporting on VFM

Where we are not satisfied that the PCC/CC has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the Code requires that we should refer to this by exception in the audit report on the financial statements.

In addition, the Code requires us to include the commentary on arrangements in the Auditor's Annual Report. The Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the PCC/CC's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of our 2021/22 VFM planning

We have yet to complete our detailed VFM planning. However, as part of our risk assessment we will consider the financial sustainability of the Authority as well as any impact the change in senior officers has had on the governance of the organisation. If we identify any risks of significant weaknesses as part of our risk assessment process we will inform the Joint Audit, Risk and Assurance Panel.

04 Audit materiality

Audit materiality

Materiality

For planning purposes, materiality for 2021/22 has been set out at £2.18 million and £6.08 million for PCC and CC respectively. The Group materiality is set at £6.99 million.

	Group	PCC	CC
Materiality basis	2% of the prior year's gross expenditure on provisions of services	2% of prior year assets	2% of the prior year's gross expenditure on provisions of services
Planning materiality	£6.99 million	£2.18 million	£6.8million
Performance materiality	£5.25 million	£1.64 million	£5.1 million
Audit differences	£350,000	£109,000	£340,000

Materiality will be reassessed throughout the audit process. The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

We have provided supplemental information about audit materiality in Appendix C.

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

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at 75% of planning materiality, which is consistent with the prior year.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet and the police pension fund financial statements that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of Joint Audit, Risk and Assurance Panel, or are important from a qualitative perspective.

Specific materiality – We can set a lower materiality for specific accounts disclosure e.g. remuneration disclosures, related party transactions and exit packages which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this.

05 Scope of our audit

Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice, our principal objectives are to undertake work to support the provision of our audit report to the audited body and to satisfy ourselves that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. **Financial statement audit**

Our opinion on the financial statements:

- whether the financial statements give a true and fair view of the financial position of the audited body and its expenditure and income for the period in question; and
- whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

Our opinion on other matters:

- whether other information published together with the audited financial statements is consistent with the financial statements; and
- where required, whether the part of the remuneration report to be audited has been properly prepared in accordance with the relevant accounting and reporting framework.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

As outlined in Section 03, we are required to consider whether the PCC and CC have put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources and report a commentary on those arrangements.

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2021/22 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

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

Internal audit:

We will review Internal Audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our ongoing assessment, where they raise issues that could have an impact on the overall control environment or financial statements.

Scope of our audit

Scoping the group audit

Group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk based. We identify components as:

1. **Significant components:** A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
2. **Not significant components:** The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

Our preliminary audit scoping has identified 2 significant components and 0 non-significant components.

Scoping by entity and scope definitions

2

Full scope: locations where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations. This scope is relevant to the PCC and CC as single entities.

Group audit team involvement in component audits

Auditing standards require us to be involved in the work of our component teams. As we are the auditor for both the PCC and CC there are no additional considerations required.

06 Audit team

Audit team

Audit team structure:

Hayley Clark*   Engagement Partner
Jessica Pillay   Audit Manager
Ravi Klair   Lead Senior

* Key Audit Partner

Hayley Clark is the Audit Engagement Partner and will sign the opinions on the financial statements.

Jessica Pillay (the audit manager) and Ravi Klair (lead senior) will have responsibility for all operational matters and for the day to day management and delivery of the external audit service.

Use of specialists

- Our approach to the involvement of specialists, and the use of their work.

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	EY Valuations Team will be utilised where any specific risks or issues are identified that require further consultation.
Pensions disclosure	EY Pensions Advisory, PwC (Consulting Actuary to the National Audit Office) who will review the work of Hymans Robertson, the actuaries to the Leicestershire Pension Fund, and the Police Pension Scheme actuary (Mercer).
Pension Fund	PwC are commissioned by the NAO to undertake a review of Local Government Actuaries EY Pensions team perform a rollforward review as required under ISA540 and review the work performed by PwC

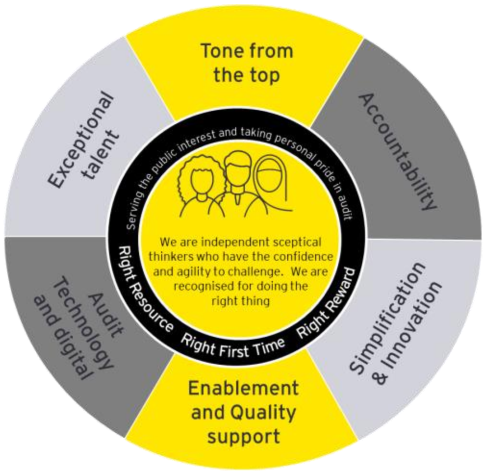
In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the PCC and CC's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

Developing the right Audit Culture

In July 2021, EY established a UK Audit Board (UKAB) with a majority of independent Audit Non-Executives (ANEs). The UKAB will support our focus on delivering high-quality audits by strengthening governance and oversight over the culture of the audit business. This focus is critical given that audit quality starts with having the right culture embedded in the business.



Our audit culture is the cement that binds together the building blocks and foundation of our audit strategy. We have been thoughtful in articulating a culture that is right for us: one that recognises we are part of a wider, global firm and is clear about whose interests our audits serve.

There are three elements underpinning our culture:

1. Our people are focused on a **common purpose**. It is vital we foster and nurture the values, attitudes and behaviours that lead our people to do the right thing.
2. The essential attributes of our audit business are:
   - **Right resources** – We team with competent people, investing in audit technology, methodology and support
   - **Right first time** – Our teams execute and review their work, consulting where required to meet the required standard
   - **Right reward** – We align our reward and recognition to reinforce the right behaviours
3. The six pillars of **Sustainable Audit Quality** are implemented.

01 **Tone at the top**

The internal and external messages sent by EY leadership, including audit partners, set a clear tone at the top - they establish and encourage a commitment to audit quality

02 **Exceptional talent**

Specific initiatives support EY auditors in devoting time to perform quality work, including recruitment, retention, development and workload management

03 **Accountability**

The systems and processes in place help EY people take responsibility for carrying out high-quality work at all times, including their reward and recognition

04 **Audit technology and digital**

The EY Digital Audit is evolving to set the standard for the digital-first way of approaching audit, combining leading-edge digital tools, stakeholder focus and a commitment to quality

05 **Simplification and innovation**

We are simplifying and standardising the approach used by EY auditors and embracing emerging technologies to improve the quality, consistency and efficiency of the audit

06 **Enablement and quality support**

How EY teams are internally supported to manage their responsibility to provide high audit quality

A critical part of this culture is that our people are **encouraged and empowered to challenge and exercise professional scepticism** across all our audits. However, we recognise that creating a culture requires more than just words from leaders. It has to be reflected in the lived experience of all our people each and every day enabling them to challenge themselves and the companies we audit.

Each year we complete an audit quality culture assessment to obtain feedback from our people on the values and behaviours they experience, and those they consider to be fundamental to our audit quality culture of the future. We action points that arise to ensure our culture continues to evolve appropriately.

2021 Audit Culture Survey result
A cultural health score of 78% (73%) was achieved for our UK Audit Business

We bring our culture alive by investing in three priority workstreams:

- Audit Culture with a focus on professional scepticism
- Adopting the digital audit
- Standardisation

This investment has led to a number of successful outputs covering training, tools, techniques and additional sources. Specific highlights include:

- Audit Purpose Barometer
- Active Scepticism Framework
- Increased access to external sector forecasts
- Forensic risk assessment pilots
- Refreshed PLOT training and support materials, including embedding in new hire and trainee courses
- Digital audit training for all ranks
- Increased hot file reviews and improved escalation processes
- New work programmes issued on auditing going concern, climate, impairment, expected credit losses, cashflow statements and conducting effective group oversight
- Development of bite size, available on demand, task specific tutorial videos

"A series of company collapses linked to unhealthy cultures…..have demonstrated why cultivating a healthy culture, underpinned by the right tone from the top, is fundamental to business success."

Sir John Thompson
Chief Executive of the FRC

07 Audit timeline

Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2021/22

From time to time matters may arise that require immediate communication with the JARAP and we will discuss them with the JARAP Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	JARAP timetable	Deliverables
Planning: Risk assessment and setting of scopes.	March 2023		
Walkthrough of key systems and processes	March 2023	JARAP	Audit Planning Report
Year end audit Quality Report/Account testing	April-May 2023		
Year end audit Audit Completion procedures	May 2023	JARAP	
	June / July 2023	JARAP	Audit Results Report Audit opinions and completion certificates
	August 2023	JARAP	Auditor's Annual Report

08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
► The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ► The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ► The overall assessment of threats and safeguards; ► Information about the general policies and process within EY to maintain objectivity and independence.	► In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ► Details of non-audit/additional services provided and the fees charged in relation thereto; ► Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ► Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner ► Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ► Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and ► An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Hayley Clark, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the PCC, CC and Group. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES and the services have been approved in accordance with your policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you. For accounting period ended 31 March 2022 non-audit fees subject to the fee cap cannot exceed 70% of the average audit fees for the past three years. At the time of writing, no non-audit services have been undertaken, therefore the current ratio of non-audit fees to audit fees is zero. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements. There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the PCC and CC. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work. There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise. There are no other threats at the date of this report.

Other communications

EY Transparency Report 2022

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2022: EY UK 2022 Transparency Report | EY UK

09 Appendices

Appendix A
Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

Audit fees

As part of our reporting on our independence, we set out below a summary of the fees you have paid us in the year ended 31 March 2021.

We confirm that we have not undertaken any non-audit work.

Description	Planned Fee 2021/22 £	Final Fee 2020/21 £
PCC Audit Fee – Code work	24,971	24,971
CC Audit Fee – Code work	11,550	11,550
Scale fee variation	TBC(2)	TBC (1)
Total Audit Fee – Code work (3)	TBC	TBC
Total non-audit services	Nil	Nil

As per the Redmond Report, local government external audit fees have not kept pace with regulatory change. We believe that changes in the work required to address professional and regulatory requirements and scope changes associated with the risk of the organisation mean that the scale fee for the Group should more realistically be set at a level of £94k. The scale fee is set by PSAA Limited.

1) The 2020/21 work includes a scale fee variation for the additional work required in the following areas:

- New requirements of the NAO Code of Audit Practice on Value for Money arrangements, which PSAA have set out minimum fee range of between £6,000-£11,000
- Additional audit work to respond to ISA540 which PSAA have set out a minimum fee range of £2,500.
- Additional audit work required to address significant audit risks and audit differences, agreed amendments set out in this report.
- Additional audit work required to address enhanced requirements from professional and regulatory standards and expectations.

We are in the process of setting out the fee variation for 20/21 and 21/22 and will communicate these to management in due course.

2) We have identified and reported areas where additional audit work has been required over and above the level of the scale fee previously set which corresponded to the risks set out in our audit plan and the implications of operating using a lower level of materiality. Some of the identified areas are:

- Collaborative arrangements;
- PPE valuations & other estimates;
- Pensions valuations; and
- Value for Money.
- Officers Remuneration

We will discuss these additional costs with management and provided indicative fee levels for each of these areas. We will report the final levels to you upon conclusion of our work and agreement with management.

Required communications with the Audit Committee

We have detailed the communications that we must provide to the Joint Audit, Risk and Assurance Panel**.**

Required communications	What is reported?	Our Reporting to you When and where
Terms of engagement	Confirmation by the PCC and CC of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit Planning Report – March 2023
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Audit Results Report – June/July 2023

Required communications with the Audit Committee (continued)

Required communications	What is reported?	Our Reporting to you When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	Audit Results Report – June/July 2023
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Material misstatements corrected by management	Audit Results Report – June/July 2023
Subsequent events	▸ Enquiries of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements	Audit Results Report – June/July 2023
Fraud	▸ Enquiries of the PCC and CC to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements ▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▸ Any other matters related to fraud, relevant to JARAP responsibility	Audit Results Report – June/July 2023

Appendix B

Required communications with the Audit Committee (continued)

Required communications	What is reported?	Our Reporting to you When and where
Related parties	▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity	Audit Results Report – June/July 2023
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit Plan – March 2023 Audit Results Report – June/July 2023

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures	Audit Results Report – June/July 2023
Consideration of laws and regulations	▸ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▸ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of	Audit Results Report – June/July 2023
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Audit Results Report – June/July 2023

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Group audits	▸ An overview of the type of work to be performed on the financial information of the components ▸ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▸ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▸ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▸ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements	Audit Plan – March 2023 Audit Results Report – June/July 2023
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report – June/July 2023
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report – June/July 2023
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report – June/July 2023
Fee Reporting	▸ Breakdown of fee information when the audit plan is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit Plan – March 2023 Audit Results Report – June/July 2023
Value for Money	▸ Risks of significant weakness identified in planning work ▸ Commentary against specified reporting criteria on the VFM arrangements, including any exception report on significant weaknesses.	Audit Plan – March 2023 Audit Results Report – June/July 2023

Additional audit information

Objective of our audit

Our objective is to form an opinion on the group's financial statements under International Standards on Auditing (UK) as prepared by you in accordance with with International Financial Reporting Standards as adopted by the EU, and as interpreted and adapted by the Code of Audit Practice.

Our responsibilities in relation to the financial statement audit are set out in the formal terms of engagement between the PSAA's appointed auditors and audited bodies. We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Audit Committee. The audit does not relieve PCC,CC, management or the Joint Audit, Risk and Assurance Panel of their responsibilities.

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards	▸ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. ▸ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. ▸ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. ▸ Concluding on the appropriateness of management's use of the going concern basis of accounting. ▸ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. ▸ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the audit committee reporting appropriately addresses matters communicated by us to the JARAP and reporting whether it is materially inconsistent with our understanding and the financial statements; and ▸ Maintaining auditor independence.

Appendix C

Additional audit information (continued)

Other required procedures during the course of the audit (continued)	
Procedures required by the Audit Code	▸ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement. ▸ Examining and reporting on the consistency of consolidation schedules or returns with the PCC/CC's audited financial statements for the relevant reporting period
Other procedures	▸ We are required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice
We have included in Appendix B a list of matters that we are required to communicate to you under professional standards.	

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines the level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

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