



Audit Strategy Memorandum

Office of the Police, Fire and Crime Commissioner for North Yorkshire and the Chief Constable for North Yorkshire

Year ending 6 May 2024

Jo Coles, Deputy Mayor for Policing, Fire and Crime (DMPFC)
Tim Forber, Chief Constable for North Yorkshire (CC)
Members of the Joint Independent Audit Committee (JIAC)
North Yorkshire Police - Police Headquarters
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Sep 4, 2024

Forvis Mazars
Bank Chambers
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Dear Deputy Mayor for Policing, Fire and Crime / Chief Constable / Members of the JIAC,

Audit Strategy Memorandum – Year Ending 6 May 2024

We are pleased to present our Audit Strategy Memorandum for Police, Fire and Crime Commissioner for North Yorkshire and the Chief Constable for North Yorkshire for the year ending 6 May 2024. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 7 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing the Authority 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.

Providing a high-quality 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. If you have any concerns or comments about this report or our audit approach, please contact me on 0191 383 6331.

Yours Faithfully,


[James Collins \(Sep 4, 2024 15:03 GMT+1\)](#)

James Collins

Forvis Mazars

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Engagement and responsibilities summary

Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of Office of the Police, Fire and Crime Commissioner for North Yorkshire (the PFCC) and the Chief Constable for North Yorkshire (the CC) for the year to 6 May 2024. 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 overleaf.

At the time of presenting our Audit Strategy Memorandum, there are a series of active consultations in place that could impact upon both the Authority’s financial statements and the work we are required to undertake. Appendix C summarises the proposals under each of the consultations and further details can be found on the Financial Reporting Council’s [website](#). Should the outcome of these consultations affect the risks we have identified or the scope of our work, we will provide further information to the Joint Independent Audit Committee and the Deputy Mayor for Policing, Fire and Crime and the Chief Constable for North Yorkshire in due course.

Engagement and responsibilities summary

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 PFCC and CC as those charged with governance, of their responsibilities.

The Chief Finance Officers are responsible for the assessment of whether it is appropriate for the PFCC and CC to prepare its 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 Officer's 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 compliance with relevant laws and regulations, and the 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 [include Internal audit, other key individuals where relevant] 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.

Internal control

Management is responsible for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

We are responsible for obtaining an understanding of internal control relevant to our audit and the preparation of the financial statements to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PFCC and CCs internal control.

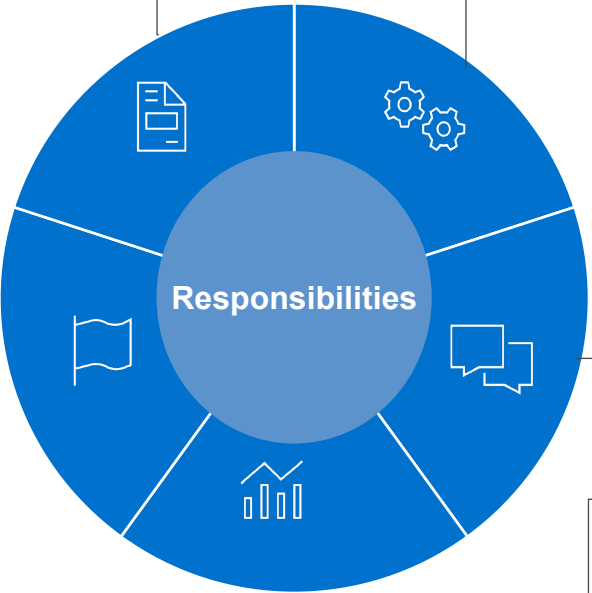
Wider reporting and electors' rights

We report to the NAO on the consistency of the PFCC and Group's and CC'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 accounts of the PFCC and CC and consider objections made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Value for money

We are also responsible for forming a view on the arrangements that the PFCC and CC 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.



Your audit engagement team

Your audit team

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Audit scope, approach, and timeline

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 the nature, extent, and timing of our audit procedures are primarily driven by the areas of the financial statements we consider to be more susceptible to material misstatement. Following our risk assessment where we assess the inherent risk factors (subjectivity, complexity, uncertainty, change and susceptibility to misstatement due to management bias or fraud) to aid in our risk assessment, we develop our audit strategy and design audit procedures to respond to the risks we have identified.

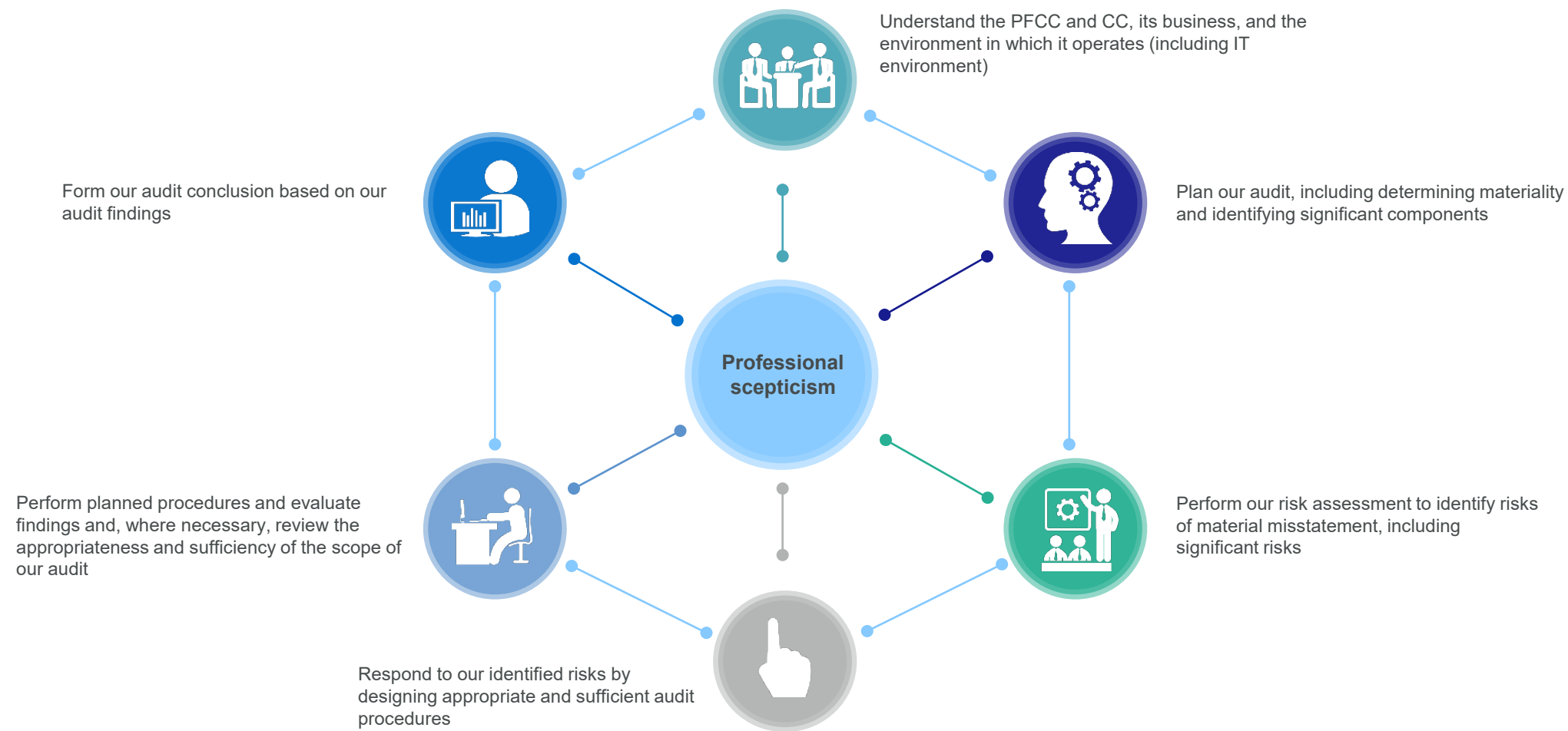
If we conclude that appropriately-designed controls are in place, we may plan to test and rely on those controls. If we decide controls are not appropriately designed, or we decide that it would be more efficient to do so, we may take a wholly substantive approach to our audit testing where, in our professional judgement, substantive procedures alone will provide sufficient appropriate audit evidence. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of detail (of classes of transaction, account balances, and disclosures), and substantive analytical procedures. Irrespective of our assessed risks of material misstatement, which takes account of our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transaction, 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.

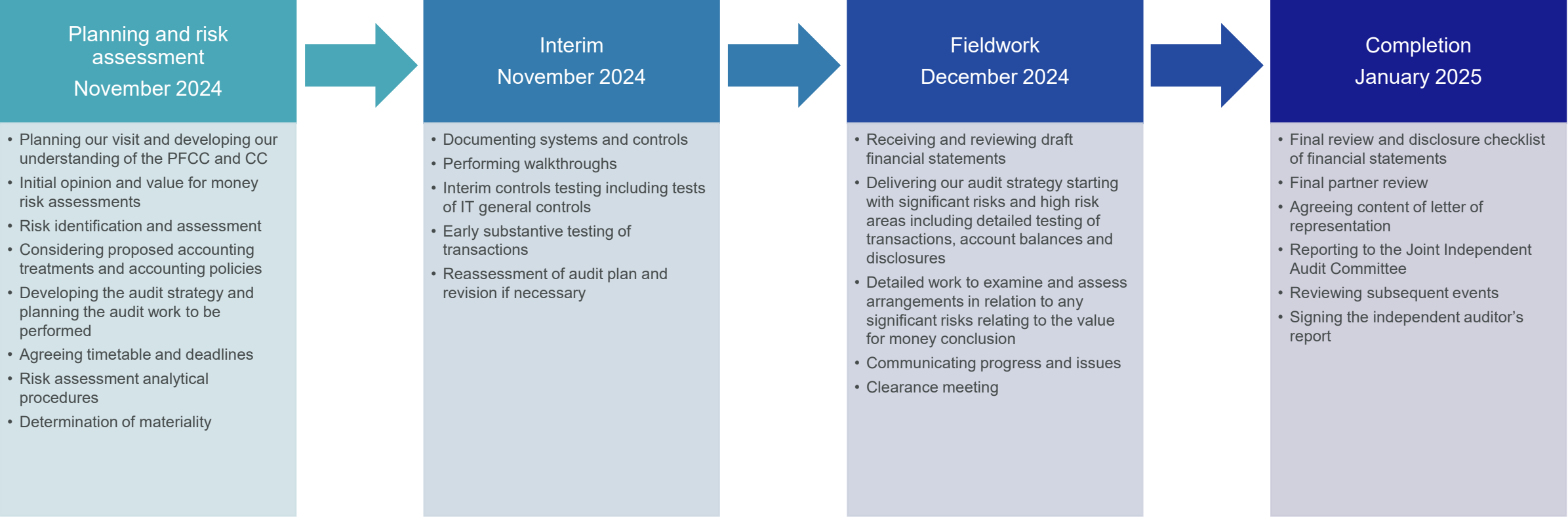
Audit scope, approach, and timeline

Risk-based approach



Audit scope, approach, and timeline

Audit timeline



Audit scope, approach, and timeline

Management’s experts and our experts

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

Item of Account	Management’s expert	Our expert
Pension Defined Benefits Liability / Asset	Government Actuary’s Department (GAD) for police officers; and AON for members of the local government pension scheme (LGPS)	NAO’s Consulting Actuary (PWC)
Property, plant and equipment valuation	NPS Property Consultants	

Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the PFCC and CC that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services.

The table below summarises the service organisations used by the PFCC and CC and our planned audit approach.

Item 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.

Audit scope, approach, and timeline

Group audit approach

We are responsible for the audit of the group consolidation. The scope of our audit is based on an analysis of the risks we have identified at the group level. When scoping our audit, we have considered quantitative criteria (the contribution of the group's consolidated components to the group financial statements) and qualitative criteria (risks of material misstatement that consolidated components may present individually). The nature and extent of audit work we plan to perform on the consolidated components is set out below.

Entity	Auditor	Scope
Office of the Police, Fire and Crime Commissioner for North Yorkshire	Forvis Mazars	Full
Chief Constable for North Yorkshire	Forvis Mazars	Full

Significant risks and other key judgement areas

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

A risk that is assessed as being at or close to the upper end of the spectrum of inherent risk, based on a combination of the likelihood of a misstatement occurring and the magnitude of any potential misstatement. A fraud risk is always assessed as a significant risk (as required by auditing standards), including management override of controls and revenue recognition.

Enhanced risk

An area with an elevated risk of material misstatement at the assertion level, other than a significant risk, based on factors/ information inherent to that area. Enhanced risks require additional consideration but do not rise to the level of a significant risk. These include but are not limited to:

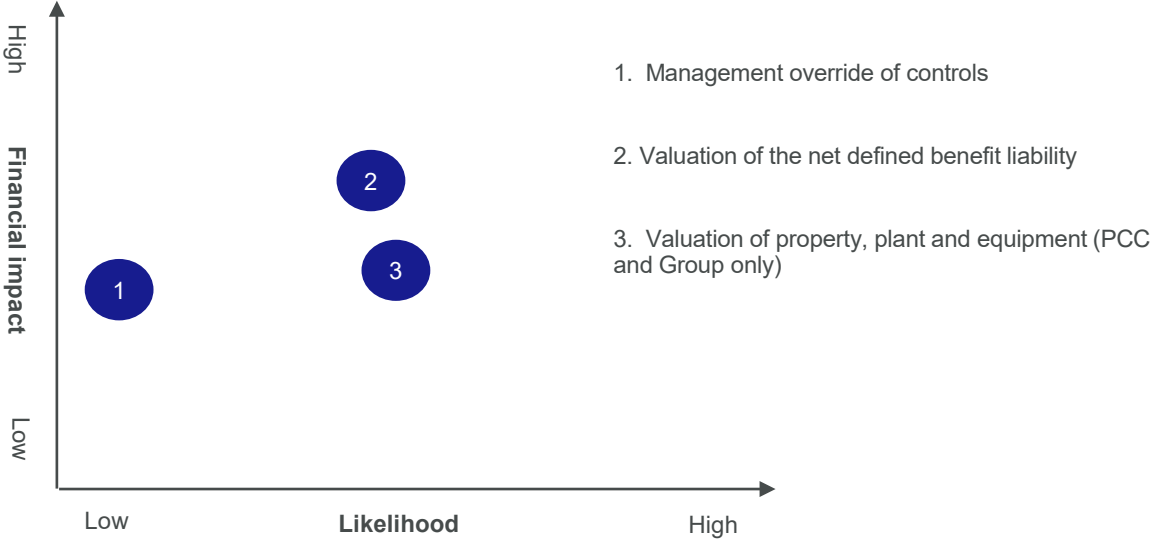
- Key areas of management judgement and estimation uncertainty, including accounting estimates related to material classes of transaction, account balances, and disclosures but which are not considered to give rise to a significant risk of material misstatement; and
- Risks relating to other assertions and arising from significant events or transactions that occurred during the period.

Standard risk

A risk related to assertions over classes of transaction, account balances, and disclosures that are relatively routine, non-complex, tend to be subject to systematic processing, and require little or no management judgement/ estimation. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature of the financial statement area, the likely magnitude of potential misstatements, or the likelihood of a 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 PFCC and CC. We have summarised our audit response to these risks on the next page.



Key: ● Significant risk

Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy

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

Significant risks

	Description	Fraud	Error	Judgement	Planned response
1	<p>Management override of controls (PFCC and CC)</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.

Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	<p>ISA19 Net defined benefit valuation (PFCC and CC)</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>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 North Yorkshire Pension Fund for the LGPS.</p>
3	<p>Valuation of property, plant and equipment (PFCC 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 PFCC and Group's holding of land and buildings. Although the PFCC and Group uses a valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of land and buildings due to the significant judgements and number of variables involved in providing revaluations. We have therefore identified the valuation of land and buildings to be an area of significant risk.</p>		●	●	<p>We will consider the PFCC's arrangements for ensuring that land and building values are reasonable and will consider corroborative evidence to enable us 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>For assets revalued during 2023/24 we will review the valuation methodology used, including testing the underlying data and assumptions. We will compare the valuation output with market intelligence, to obtain assurance that the valuations are in line with market expectations.</p> <p>We will review the approach that the PFCC has adopted to address the risk that assets not subject to valuation in 2023/24 are materially misstated and consider the robustness of that approach in light of the valuation information reported by the external valuers. In addition, we will consider movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time.</p>

Significant risks and other key judgement areas

Other considerations

In consideration of ISA (UK) 260 *Communication with Those Charged with Governance*, as part of our audit we obtain the views of, and enquire whether the Deputy Mayor for Policing, Fire and Crime and Chief Constable have knowledge of, the following matters:

- Did you identify any other risks (business, laws & regulation, fraud, going concern etc.) that may result in material misstatements?
- Are you aware of any significant communications between the Group and regulators?
- Are there any matters that you consider warrant particular attention during the course of our audit, and any areas where you would like additional procedures to be undertaken?

We plan to do this by formal letter to the Deputy Mayor for Policing, Fire and Crime and Chief Constable which we will obtain prior to completing our audit.

Significant difficulties encountered during the course of audit

In accordance with ISA (UK) 260 *Communication with Those Charged with Governance*, we are required to communicate certain matters to the Deputy Mayor for Policing, Fire and Crime and Chief Constable which include, but are not limited to, significant difficulties, if any, that are encountered during our audit. Such difficulties may include matters such as:

- Significant delays in management providing information that we require to perform our audit.
- An unnecessarily brief time within which to complete our audit.
- Extensive and unexpected effort to obtain sufficient appropriate audit evidence.
- Unavailability of expected information.
- Restrictions imposed on us by management.
- Unwillingness by management to make or extend their assessment of an entity's ability to continue as a going concern when requested.

We will highlight to you on a timely basis should we encounter any such difficulties (if our audit process is unduly impeded, this could require us to issue a modified auditor's report).

Other matters

We are still considering the impact of the preparation of accounts up to 6 May 2024 for a 13-month period on our audit work and any associated accounting treatment. As we complete our risk assessments throughout the audit process, we will communicate any matters that may arise with the Deputy Mayor for Policing, Fire and Crime and Chief Constable .

Value for money arrangements

Value for money arrangements

The framework for value for money work

We are required to form a view as to whether the PFCC and CC has 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.

2023/24 will be the fourth 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 PFCC and CC has 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 PFCC and CC'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 PFCC and CC plan and manage their resources to ensure it can continue to deliver its services;
2. **Governance** – how the PFCC and CC ensure that they make informed decisions and properly manage its risks; and
3. **Improving economy, efficiency and effectiveness** – how the PFCC and CC 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 PFCC and CCs 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 PFCC and CC and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

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

Value for money arrangements

Identified risks of significant weaknesses in arrangements

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

Although we have not fully completed our planning and risk assessment work, we have not identified any new risks of significant weakness in arrangements in our planning to date.

Please note that at the time of writing this report, the 2022/23 work on the Authority's VFM arrangements is yet to be reported and we will update on this in due course.

Audit fees and other services

Audit fees and other services

Fees for audit and other services

Our fees (exclusive of VAT) for the audit of Police, Fire and Crime Commissioner for North Yorkshire and the Chief Constable for North Yorkshire for the year ended 6 May 2024 are outlined below.

Fees for work as the PFCC and CC’s appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA.

Fees for the PCC and Group

Area of work	2023/24 Proposed Fee	2022/23 Proposed Fee
Code Audit Work	£94,296	£31,225
Additional fees agreed in 2022/23 ASM ¹	£0	£9,750
Additional fees agreed on completion	To be confirmed	To be confirmed
Grand total	£94,296	£40,975

Note 1 – Additional fees in respect of the VFM approach and the revised ISA 540.

Fees for the CC

Area of work	2023/24 Proposed Fee	2022/23 Proposed Fee
Code Audit Work	£46,829	£14,500
Additional fees agreed in 2022/23 ASM ¹	£0	£5,750
Additional fees agreed on completion	To be confirmed	To be confirmed
Grand total	£46,829	£20,250

Note 1 – Additional fees in respect of the VFM approach and the revised ISA 540.

Fees for non-PSAA work




At this stage we are not expecting to undertake any non-PSAA work for the PFCC & Group or the Chief Constable for 2023/24.

Before agreeing to carry out any additional work, we would consider whether there were any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

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Confirmation of our independence

Confirmation of our independence

	Requirements	We comply with the International Code of Ethics for Professional Accountants, including International Independence Standards issued by the International Ethics Standards Board for Accountants together with the ethical requirements that are relevant to our audit of the financial statements in the UK reflected in the ICAEW Code of Ethics and the FRC Ethical Standard 2019.
	Compliance	We are not aware of any relationship between Forvis Mazars and Police, Fire and Crime Commissioner for North Yorkshire and the Chief Constable for North Yorkshire that, in our professional judgement, may reasonably be thought to impair our independence. We are independent of Police, Fire and Crime Commissioner for North Yorkshire and the Chief Constable for North Yorkshire and have fulfilled our independence and ethical responsibilities in accordance with the requirements applicable to our audit.
	Non-audit and Audit fees	We have set out a summary any non-audit services provided by Forvis Mazars (with related fees) to Police, Fire and Crime Commissioner for North Yorkshire and the Chief Constable for North Yorkshire in Section 6, together with our audit fees and independence assessment.

We are committed to independence and confirm that we comply with the FRC’s Ethical Standard. In addition, we have set out in this section any matters or relationships we believe may have a bearing on our independence or the objectivity of our 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, that create any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place that 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 complete annual ethical training.
- Rotation policies covering audit engagement partners and other key members of the audit team.
- 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 report, that the engagement team and others in the firm as appropriate, Forvis Mazars LLP [and, when applicable, Forvis Mazars’ member firms] 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 the PFCC and CC in the first instance.

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

Principal threats to our independence and the associated safeguards we have identified and/ or put in place are set out in Terms of Appointment issued by PSAA available from the PSAA website: [Terms of Appointment from 2018/19 - PSAA](#). Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

Materiality and misstatements

Materiality and misstatements

Definitions

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

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

Materiality

We determine materiality for the financial statements as a whole (overall materiality) using a benchmark that, in our professional judgement, is most appropriate to entity. We also determine an amount less than materiality (performance materiality), which is applied when we carry out our audit procedures and is designed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Further, we set a threshold above which all misstatements we identify during our audit (adjusted and unadjusted) will be reported to the Joint Independent Audit Committee.

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 a consideration of the common financial information needs of users as a group and not on specific individual users.

An 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 consideration of future events; and
- Will make reasonable economic decisions based on the information in the financial statements.

We consider overall materiality and performance materiality while planning and performing our audit based on quantitative and qualitative factors

When planning our audit, we make judgements about the size of misstatements we consider to be material. This provide a basis for our risk assessment procedures, including identifying and assessing the risks of material misstatement, and determining the nature, timing and extent of our responses to those risks.

The overall materiality and performance materiality that we determine does not necessarily mean that uncorrected misstatements that are below materiality, individually or in aggregate, will be considered immaterial.

We revise materiality 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.

Materiality and misstatements

Materiality (continued)

For the group and single-entity financial statements, 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 of 2% of gross revenue expenditure at the surplus / deficit level. Based on the 2022/23 prior year draft financial statements, as set out in the tables alongside, we anticipate the overall materiality for the year ended 6 May 2024 to be in the region of £5.895m for the Group, £4.209m for the PCC and £5.200m for the Chief Constable.

We will continue to monitor materiality throughout our audit to ensure it is set at an appropriate level.

	Initial threshold Group £'000s	Initial threshold PFCC £'000s	Initial threshold Chief Constable £'000s
Overall materiality	5,895	4,209	5,200
Performance materiality	4,716	3,367	4,160
Clearly trivial	177	126	156

Materiality and misstatements

Misstatements

We will accumulate misstatements identified during our audit that are above our determined clearly trivial threshold.

We have set a clearly trivial threshold for individual misstatements we identify (a reporting threshold) for reporting to the Joint Independent Audit Committee and management that is consistent with a threshold where misstatements below that amount 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 clearly trivial threshold is £177k for the Group, £126k for the PFCC and £156k for the Chief Constable, based on 3% of overall materiality. If you have any queries about this, please raise these with James Collins.

Each misstatement above the reporting threshold that we identify will be classified as:

- **Adjusted:** Those misstatements that we identify and are corrected by management.
- **Unadjusted:** Those misstatements that we identify that are not corrected by management.

We will report all misstatements above the reporting threshold to management and request that they are corrected. If they are not corrected, we will report each misstatement to the Joint Independent Audit Committee as unadjusted misstatements and, if they remain uncorrected, we will communicate the effect that they may have individually, or in aggregate, on our audit opinion.

Misstatements also cover quantitative misstatements, including those relating to the notes of the financial statements.

Reporting

In summary, we will categorise and report misstatements above the reporting threshold to the Joint Independent Audit Committee as follows:

- Adjusted misstatements;
- Unadjusted misstatements; and
- Disclosure misstatements (adjusted and unadjusted).

Appendices

A: Key communication points

B: Current year updates, forthcoming accounting and other issues

C: Consultations on measures to tackle the local government financial reporting and audit backlog

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 (UK) 260 *Communication with Those Charged with Governance* and ISA (UK) 265 *Communicating Deficiencies In Internal Control To Those Charged With Governance And Management* specifically require us to communicate a number of points with you.

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

Form, timing and content of our communications

We will present the following reports:

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

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

Key communication points at the planning stage as included in this Audit strategy memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;
- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

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

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- 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 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 PFCC 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 Joint Independent Audit Committee. Audit planning and clearance meetings

Appendix A: Key communication points

Required communication	Where addressed
Significant matters arising during the audit in connection with the entity’s related parties including, when applicable: <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
Significant findings from the audit including: <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

Appendix A: Key communication points

Required communication	Where addressed
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report
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 PFCC 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 PFCC and Chief Constable may be aware of.	Audit Completion Report and the Joint Independent Audit Committee meetings.
<p>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:</p> <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
<p>Communication regarding our system of quality management, compliant with ISQM 1, developed to support the consistent performance of quality audit engagements. To address the requirements of ISQM (UK) 1, the firm's ISQM 1 team completes, as part of an ongoing and iterative process, a number of key steps to assess and conclude on the firm's System of Quality Management:</p> <ul style="list-style-type: none"> • Ensure there is an appropriate assignment of responsibilities under ISQM1 and across Leadership • Establish and review quality objectives each year, ensuring ISQM (UK) 1 objectives align with the firm's strategies and priorities • Identify, review and update quality risks each quarter, taking into consideration of number of input sources (such as FRC / ICAEW review findings, AQT findings, RCA findings, etc.) • Identify, design and implement responses as part of the process to strengthen the firm's internal control environment and overall quality • Evaluate responses to identify and remediation process / control gaps <p>We perform an evaluation of our system of quality management on an annual basis. Our first evaluation was performed as of 31 August 2023. Details of that assessment and our conclusion are set out in our 2022/2023 Transparency Report, which is available on our website here.</p>	Audit Strategy Memorandum

Appendix B: Current year updates, forthcoming accounting & other issues

New standards and amendments

Effective for accounting periods beginning on or after 1 January 2024

The information detailed on this slide is for wider IFRS information only. They will be subject to inclusion within the FReM and Code as determined by FRAB.

Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Issued January 2020), Deferral of Effective Date (Issued July 2020) and Non-current Liabilities with Covenants (Issued October 2022)

The January 2020 amendments clarify the requirements for classifying liabilities as current or non-current in IAS 1 by providing clarification surrounding: when to assess classification; understanding what is an 'unconditional right'; whether to determine classification based on an entity's right versus discretion and expectation; and dealing with settlements after the reporting date.

The October 2022 amendments specify how covenants should be taken into account in the classification of a liability as current or non-current. Only covenants with which an entity is required to comply with by the reporting date affect the classification as current or non-current. Classification is not therefore affected if the right to defer settlement of a liability for at least 12 months is subject to compliance with covenants at a date after the reporting date. These amendments also clarify the disclosures about the nature of covenants, so that users of financial statements can assess the risk that non-current debts accompanied by covenants may become repayable within 12 months.

Amendments to IAS 16 Leases: Lease Liability in Sale and Leaseback (Issued September 2022)

The amendments include additional requirements to explain how to subsequently measure the lease liability in a sale and leaseback transaction, specifically how to include variable lease payments.

For further information, please refer to our blog article: [Amendments to IFRS 16 Leases – Lease Liability in a Sale and Leaseback](#)

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (Issued May 2023)

The amendments introduce changes to the disclosure requirements around supplier finance arrangements with the intention of providing more detailed information to help users analyse and understand the effects of such arrangements.

The amendments provide an overarching disclosure objective to ensure that users of financial statements are able to assess the effects of such arrangements on an entity's liabilities and cash flows, as well as some additional disclosure requirements relating to the specific terms and conditions of the arrangement, quantitative information about changes in financial liabilities that are part of the supplier financing arrangement, and about an entity's exposure to liquidity risk.

For further information, please refer to our blog article: [IASB publishes final amendments on supplier finance arrangements](#)

Appendix B: Current year updates, forthcoming accounting & other issues

New standards and amendments (continued)

Effective for accounting periods beginning on or after 1 January 2023

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements: Disclosure of Accounting Policies (Issued February 2021)

The amendments set out new requirements for material accounting policy information to be disclosed, rather than significant accounting policies. Immaterial accounting policy information should not be disclosed as accounting policy information taken in isolation is unlikely to be material, but it is when the information is considered together with other information in the financial statements that may make it material.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Issued February 2021)

The amendment introduces a new definition for accounting estimates and clarifies how entities should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events.

IFRS 17 Insurance Contracts (issued May 2017) and Amendments to IFRS 17 Insurance Contracts (Issued June 2020)

IFRS 17 is a new standard that will replace IFRS 4 *Insurance Contracts* (IFRS 4). The standard sets out the principles for the recognition, measurement, presentation and disclosure about insurance contracts issued, and reinsurance contracts held, by entities.

Amendments to IFRS 17 Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 Financial Instruments (Issued December 2021)

The amendments address potential mismatches between the measurement of financial assets and insurance liabilities in the comparative period because of different transitional requirements in IFRS 9 and IFRS 17. The amendments introduce a classification overlay under which a financial asset is permitted to be presented in the comparative period as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset in the comparative period. The classification overlay can be applied on an instrument-by-instrument basis.

IFRS 17 Insurance Contracts has not yet been adopted by the FReM. Adoption in the FReM is expected to be from April 2025; early adoption is not permitted.

Appendix C: Consultations on measures to tackle the local government financial reporting and audit backlog

As we outline in the introduction to this report, there are a number of consultations currently taking place that may have implications for: the format and content of the PFCC and Chief Constable's financial statements, the work we are required to undertake under the Code of Audit Practice and the timetable for the publication of the audited statements of account.

In this Appendix, we summarise the proposals in each of the consultations for information.

CIPFA/LASAAC consultation on short-term measures to aid the recovery of local authority reporting and audit

This [consultation](#) proposes amendments to the Code of Practice on Local Authority Accounting (the Accounting Code), applicable only to relevant bodies in England. The proposals are to:

- Extend the current temporary solution for accounting for infrastructure assets beyond 2024/25;
- Remove some disclosure requirements relating to a body's net defined benefit liabilities / assets; and
- Simplify the measurement for operational property, plant and equipment in specific circumstances up to 2025/26.

DLUHC consultation on addressing the local audit backlog in England

This [consultation](#) proposes a range of measures aimed at 'clear the backlog and put the system on a sustainable footing' and outlines two key phases of recovery up to 2027/28. A key aspect of the proposals is to require Category 1 bodies, such as the PFCC and Chief Constable, to publish audited financial statements by a series of backstop dates. This proposal will be put in place by amending the Accounts and Audit Regulations 2015. For statements of account for financial years up to and including 2022/23, this would mean audited accounts will need to be published by 30 September 2024 unless a pre-defined exemption criteria has been met (such as there being an outstanding objection to the accounts at the backstop date).

The consultation sets out other proposals including:

- Publishing a list of bodies and audit firms which do not meet the statutory deadline for publishing audited statements of account; and

- Setting out 'backstop' dates for each financial year up to and including 2027/28.

In including a statutory backstop date for the publication of audited statements of account, the consultation makes it clear that the DLUHC expects that this will give rise to auditors issuing modified audit reports where they have not been able to complete their work on the financial statements.

NAO consultation on draft amendments to the Code of Audit Practice

This [consultation](#) has been launched alongside DLUHC's consultation on amendments to the Accounts and Audit Regulations 2015 and seeks to introduce measures that support more timely auditor reporting. The principle changes to the Code of Audit Practice being proposed are to:

- Require the auditor to issue an opinion on the financial statements by the 'backstop' date outlined in the amended Accounts and Audit Regulations 2015, whether this opinion is modified or not (subject to a number of exemptions);
- Allow the auditor to apply a reduced scope of work in relation to VFM arrangements work for outstanding audits up to and including 2022/23; and
- Require the auditor to publish the Auditor's Annual Report by 30 November each year from the 2023/24 audit year, and for this report to provide a summary of progress on the audit at the time of issue (even if the audit is not complete).

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